BUDGET BASICS

BUDGET PROCESS – A PRIMER

PURPOSE

This section provides an overview of the basic budget concepts, definitions of budget terms, and background and reference information pertinent to the 2009 biennium budget and legislative appropriations process. For more in-depth information, see "Understanding State Finances and the Budgeting Process", available through the Legislative Fiscal Division.

TYPES OF LEGISLATIVE APPROPRIATIONS

Article VIII, Section 14, of the Montana Constitution reads:

> "Prohibited Payments: Except for interest on the public debt, no money shall be paid out of the treasury unless upon an appropriation made by law and a warrant drawn by the proper officer in pursuance thereof."

Appropriations power lies with the legislature. In 17-7-501, MCA, three types of appropriations fall within the meanings of "appropriation made by law" as used in Article VIII, Section 14, of the Montana Constitution.

Temporary appropriations – Most activities of state government are funded on a temporary basis, usually for two-year periods. Funding, therefore, must be reauthorized by each legislature. The main vehicle for the provision of temporary appropriations is HB 2 (the General Appropriations Act).

Statutory appropriations – Statutory appropriations are made directly in statute, and are automatically made until and unless the law is changed. Statutory appropriations are listed in 17-7-502, MCA.

Budget amendments – Various authorities (most often the Governor) can approve the addition of certain funds (primarily federal) during the interim if certain statutorily defined conditions are met. General fund appropriations cannot be added without express legislative approval.

In limited cases, authorizations to expend funds can also be made through appropriation or under general laws and contracts. The great majority of state agency operations are funded through temporary appropriations.

FUND TYPES

Governmental accounting differs from private enterprise accounting in that funding is segregated and defined by the source and use of the funding. There are four main groups of funds in state government accounting.

- Governmental funds consist of the following funds:
  - General fund includes all financial resources except those that must be accounted for in another fund. The general fund collects most general taxes levied, including individual and corporate income tax, property tax, and investment income. Revenue from a number of other taxes is also deposited into the general fund.
  - Special revenue funds consist primarily of two funds:
    - State special revenue is money from state and other sources earmarked for the purpose of defraying particular costs of an agency, program, or function. The largest state special revenue accounts are the Highways State Special Revenue Account (HSSRA), which collects various fuel taxes and is used to support highway-related functions, and the general license account, which collects various hunting and fishing fees and is used to support functions in the Department of Fish, Wildlife, and Parks
    - Federal special revenue is revenue from federal sources. Most state agencies receive some federal funds. The two major sources of federal funds are used to support highway-related functions and human services programs such as Medicaid. This fund also accounts for trust activity formerly defined as expendable trusts.
  - Debt service funds are used to account for the accumulation of resources for the payment of general long-term obligations, including principal and interest. Debt service funds are statutorily appropriated.
  - Capital projects funds are financial resources used for the acquisition or construction of major fixed assets. These funds are appropriated through bills that fund capital projects.
  - Permanent funds account for resources that are restricted to the extent that only earnings and not principal may be expended for purposes that support state programs. These resources were formerly classified as non-expendable trusts (i.e. the coal tax trust).

- Proprietary funds are used for operations that provide goods or services to the public on a user-charge basis (enterprise funds), or to other agencies or programs of state government (internal service funds).
- Fiduciary funds provide for those assets held by state government in a trustee capacity, or as an agency for individuals, private organizations, other governmental entities, or other funds.
- University funds are used to support the university system and are classified according to the College and University Business Association (CUBA) structure. The legislature appropriates a portion of the funds used to support the university system as governmental funds, which are then reclassified as university system funds.

With the exception of a small portion of proprietary funds, the legislature does not directly appropriate proprietary, fiduciary, or university funds. The legislature directly appropriates most governmental funds. Debt service funds are usually statutorily appropriated. Capital projects funds are appropriated in the bills that fund the capital projects. The great majority of general fund monies and special revenue funds are appropriated through temporary appropriations bills.

HB 2

The temporary spending bill through which the vast majority of general fund monies and special revenue funds are appropriated is HB 2, the General Appropriations Act. The budget analysis contained in Volumes 3 and 4 of the Legislative Fiscal Division *2009 Biennium Legislative Budget Analysis* concentrates on the appropriations proposed for inclusion in HB 2.

Statute requires that the legislature establish fees and charges for all internal services functions. Statute further restricts programs from increasing those fees and charges during the biennium. The executive budget must also include a rate analysis of enterprise funds and internal service fees and charges. While only a small portion of proprietary funds are appropriated in HB 2, all rates approved by the legislature are listed in that bill.

Figure 1 shows all internal services rates reviewed and approved by the legislature.

Figure 1
Internal Service Functions
2009 Biennium

Agency/Program or Function
Transportation
- Motor Pool
- Equipment

Revenue
- Customer Service Center

Administration
- Administration and Financial Services Division
  - Legal Services
  - Management Services
  - Warrant Writer
  - Human Resources
- General Services Division
  - Facilities Management
  - Mail Services
  - Print Services
  - Central Stores
  - Statewide Fueling Network
  - State Procurement Card
  - Capitol Grounds Maintenance
- Information Technology Services Division
- State Personnel Division
  - Professional Development
  - Payroll Processing
  - State Recruitment Advertising
- Risk Management and Tort Defense

Fish, Wildlife, and Parks
- Administration and Finance
- Vehicle Account
- Aircraft Per Hour
- Duplicating
- Bindery
- Parks

Environmental Quality
- Central Management

Natural Resources and Conservation
- Air Operations

Commerce
- Board of Investments
- Director's Office/Management Services

Justice
- Agency Legal Services

Corrections
- Cook/Chill
- Laundry

Labor and Industry
- Centralized Services
- Business Standards

Office of Public Instruction
- Indirect Cost Pool

Montana University System
- Employee Benefits

BUDGET TERMS

Budgets must, by statute, be submitted in three tiers to allow legislative scrutiny of all stages of budget development:

The base - defined as the resources for the operation of state government, and used to cover current biennium expenses of an on-going and non-extraordinary nature. The base and how it is derived are discussed in more detail in the "Base Budget" portion of this narrative.

Present law - defined as that additional level of funding needed to maintain operations and services at the level authorized by the previous legislature. Present law includes but is not limited to legally-mandated workload, caseload, or enrollment changes, changes in funding requirements, inflationary or deflationary adjustments, and elimination of one-time appropriations.

New proposals - defined as requests to provide new non-mandated services, to change program services, to eliminate existing services, or to change sources of funding.

Changes to the budget are made individually through decision packages, which must be approved by the legislature. Decision packages can either change present law or add new proposals approved for funding.

SUBMISSION DATES

The director of the Office of Budget and Program Planning (OBPP) is required to submit a preliminary budget reflecting the base budget to the LFD by October 10, and a preliminary budget reflecting a present law base by November 1 in the year before a session. The director is further required to submit an entire preliminary budget by November 15. The LFD provides a detailed and comprehensive analysis of the executive budget, as well as an analysis of other fiscal policy issues.

BASE BUDGET

The current executive budget used actual FY 2006 expenditures as recorded on the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) as the base for determining a present law budget for the 2009 biennium. Certain items were then excluded in order to create a base that reflects only: 1) the cost of on-going programs or functions approved by the last legislature; and 2) expenditures authorized by the legislature. OBPP and LFD staff reached agreement on virtually all expenditures removed from the base. The LFD analysis provides an explanation within context of any program in which a base difference remains.

Expenditure Base Exclusions

Following is an explanation of each type of expenditure category excluded from the base:

Appropriation Transfers

Section 17-7-301, MCA, allows the Governor to authorize the transfer of funds appropriated for the second year of the biennium to the first year, if the Governor finds that “due to an unforeseen or an unanticipated emergency” the amount appropriated for the first year of the biennium “will be insufficient for the operation and maintenance of the department.” Since such transfers do not result from legislative action and may be used for meeting one-time costs, these transfers are excluded from the base. However, if the transfer funds an on-going cost, OBPP adjusts the present law budgets for the next biennium accordingly.

Budget Amendments

Budget amendments provide temporary authority allowing agencies to spend unanticipated non-general fund revenue received after the legislature has adjourned. This revenue can be used to provide additional services. In accordance with 17-7-402, MCA, budget amendment authority terminates at the end of each biennium and can make no “ascertainable present or future significant commitment for increased general fund support.” Expenditures financed through budget amendments are excluded from the base. If an agency wishes to continue an activity financed with a budget amendment in the following biennium, the request must be presented as a new proposal.

One-Time Appropriations

In general, miscellaneous or “cat and dog” appropriations (appropriations made in bills other than the general appropriations act) are considered “one-time” and not continued in the base. The legislature may specify in appropriation acts that an appropriation is not intended to be on-going and may not be included in the base.

Language Appropriations

In appropriation acts, the legislature may authorize expenditure of funds from a specific source without providing a specific dollar appropriation. Language appropriations are generally used when an agency knows that it will be receiving federal or state special revenue funds (that it is required by statute to spend) but is uncertain as to the amount of those funds. In order to be sanctioned by law as an appropriation, the language must, at least, fix a maximum amount that the appropriations may not exceed. Assuming that on-going expenditures from these sources are one-time only in nature, the expenditures are excluded from the base.

Non-Budgeted Expenditures

Generally Accepted Accounting Principles (GAAP) require agencies to make accounting entries for depreciation, amortization, and other financial transactions that appear as expenditures, but don't result in the actual expenditure of funds from the state treasury.

Statutory Appropriations

Section 17-7-501, MCA, provides that funds may be appropriated in permanent law rather than through appropriation bills, which are effective for one biennium only. In order for a statutory appropriation to be valid, the statute creating the appropriation must specifically state that it is a statutory appropriation. The statute must then be listed in section 17-7-502, MCA. Currently, there are 72 valid statutory appropriation references listed. Examples of statutory appropriations include reimbursements to local governments and debt service payments.

Other Appropriations

This category includes administrative transfers created by OBPP, continuing appropriations from previous years, internal offset adjustments to appropriations, and miscellaneous appropriations.

ENTITLEMENT AND FORMULA FUNDED PROGRAMS

Under current state and federal law, certain programs are "entitlement programs," which means that if an individual meets the underlying criteria for qualification, services must be provided (i.e., the person is "entitled" to the service). Projected growth or declines in these programs are funded as part of the present law budget, rather than through new proposals. For example, the legislature has established statutory levels of state support for each child enrolled in Montana public schools. Similarly, federal and state laws require that persons eligible for Medicaid receive specified services or grants. Programs treated as entitlement include K-12 BASE aid, subsidized adoption, foster care, and Medicaid.

PERSONAL SERVICES "SNAPSHOT"

Personal services costs generally comprise around 40 percent of total agency operating expenditures (excluding capital outlay, grants and benefits, and transfers) in any biennium.

The executive budget is based on a "snapshot" of actual salaries for authorized FTE, as they existed in the last pay period of FY 2006. The executive budget includes annualization of the pay increases appropriated in FY 2006 and 2007.

Benefits are added on an individual FTE basis. Workers' Compensation and Unemployment Insurance rates vary from agency to agency, as each agency has a different rate based upon experience.

VACANCY SAVINGS

Vacancy savings is the difference between the full appropriated cost and the actual cost of authorized employee positions during a budget period. Since 1979, the legislature has periodically applied a vacancy savings factor to agency budgets in recognition of the fact that staff turnover and vacancies often result in personal services expenditures lower than the amounts appropriated.

During the 1997 biennium, the legislature included varying vacancy savings rates among selected agencies, and among programs within agencies, in order to fund the executive pay plan. A contingency fund containing $500,000 general fund and $1,000,000 in other funds was included for this purpose.

During the 1999 biennium, the legislature applied a uniform 3 percent vacancy savings rate against all positions in state government, with the exception of those positions in agencies with fewer than 20 FTE. The legislature also assumed that any new positions added via new proposals would not be hired at the very beginning of the fiscal year as a result of the need to recruit and to meet other requirements demanding the expenditure of time. Operating under the assumption that such positions would not be filled for the first three months of the fiscal year, the legislature applied a 25 percent vacancy savings rate in the first year. The legislature also provided $2.3 million general fund and $8.8 million in other funds for the biennium in support of a contingency pool for those agencies that could not meet their vacancy savings targets.

For the 2001 biennium, the legislature adopted a vacancy savings rate of 3 percent on all personal services except insurance. This rate was not applied to agencies with fewer than 20 FTE, elected officials, university system faculty or to direct care workers within the Department of Corrections. The legislature funded a contingency pool of $700,000 from the general fund and $950,000 in other funding for the biennium.

For the 2003 biennium, the legislature enacted a 4 percent vacancy savings rate on all personal services. As in the 2001 biennium, agencies with fewer than 20 FTE as well as university system faculty were exempt. The legislature also included a contingency fund of $1.3 million general fund and $3.0 million from other funds (the legislative branch also received $200,000 general fund) for the biennium to meet potential costs involved for those agencies that do not meet their vacancy savings targets.

For the 2005 biennium, the legislature enacted a 4 percent vacancy savings rate on all personal services. As in the 2003 and 2005 biennia, agencies with fewer than 20 FTE as well as university system faculty are exempt. A contingency fund of $1.5 million general fund and $3.0 million other funds was added to fund potential costs in excess of the appropriation.

In the 2007 biennium, the legislature enacted a 4 percent vacancy savings on all personal services. The following agencies and positions with the same exemptions as the 2005 biennium except that the following were added:

- Montana Highway Patrol
- Student Services and Education Programs in the Montana School for the Deaf and Blind
- Field Services Program in the Child and Family Services Division of the Department of Public Health and Human Services (DPHHS) assessed at a 2 percent rate

In the 2009 biennium, the executive is recommending a 4 percent vacancy savings rate on all personal services. The above exceptions apply, except that the Field Services Program and the Student Services and Education Programs are also assessed a 4 percent rate.

FIXED COSTS

Agencies are charged fees (called fixed costs) for a variety of services provided by other state agencies. The executive budget includes fixed costs for the following services: Department of Administration (DofA) insurance and bonds (62104), DofA web services (621A7), DofA warrant writing fees (62113), DofA payroll service fees (62114), Legislative Auditor audit fees (62122), SABHRS (Statewide Accounting, Budgeting, and Human Resources System) operating costs (62148), DofA network fees (62174), messenger services (62307), state motor pool lease vehicle (62510), DofA rent (62527), capitol complex grounds maintenance (62770), and the statewide cost allocation plan (62888).

Figure 2 shows the total amounts included in the executive budget for fixed costs.

Figure 2

Fixed Costs

2009 Biennium Executive Budget (in millions)*

Subcommittee/Agency	Function	Total
General Government		
Administration	Insurance and Bonds	$25.8
	Warrant Writing Fees	2.0
	Payroll Service Fees	1.0
	Data Network Services	27.2
	SABHRS Operating	13.4
	Messenger Services	0.4
	Web Services	0.4
	Rent - Buildings	16.0
	Grounds Maintenance	1.0
Legislative Audit Division	Audit Fees	3.3
Various	Statewide Cost Allocation	5.6
Total		$96.1

*Includes all funds, including funds outside of HB 2.

Insurance and Bonds

The Risk Management and Tort Defense Division of the DofA collects premiums from state agencies for: 1) administration of the self-insurance program, which provides state agencies with general liability and automobile coverage; and 2) purchase of commercial policies for state agency property, aircraft, and to protect against the potential consequences of other risks. Costs are allocated to agencies based upon actual loss experience and inherent exposure.

Warrant Writing Fees

DofA provides warrant writing and direct deposit services for agency financial transactions. The costs of these services are allocated to agencies based upon actual utilization of the various types of transactions in the three previous years.

Payroll Service Fees

The State Payroll Program in DofA prepares and distributes payroll for all state agencies. Costs of these services are allocated to agencies based upon the number of paychecks issued for each agency per year.

Audit Fees

The legislative Audit Division charges agencies for the costs of financial compliance audits. These charges are included in agency budgets as biennial appropriations and allocated according to the estimated number of billable hours for each agency audit.

SABHRS Operations Unit

This unit provides all operational support for the Statewide Accounting, Budget, and Human Resources System (SABHRS). Costs were allocated in the executive budget based upon the number of full-time equivalent employees.

Data Network Services

The Information Services Division (ISD) of DofA charges agencies for the technology network that allows agency personal computers to be attached to the state mainframe and, via the mainframe, to other agency computers. Costs for this service are allocated to agencies based upon the projected number of personal computers connected to the network each year. A fixed monthly rate per computer is used to determine the overall agency charge.

Messenger Service

The Mail and Distribution Program in DofA charges state agencies for interagency mail pickup and delivery services. Costs for these services are allocated to agencies based upon the volume of mail generated by, and number of daily deliveries to, each agency.

Web Services

Beginning in FY 2009, the executive proposes a separate rate be charged by ISTD for web access. Costs would be based on per megabyte of bandwidth used per month.

State Motor Pool Lease Vehicles

The state motor pool provides vehicles to agencies of state government on a lease basis. Unlike the daily rental, the vehicles are located at the agency location on a permanent basis. Agencies possessing the vehicles are assessed both a daily charge and a per mile charge for vehicle usage.

Rent

The General Services Division (GSD) of DofA charges rent to state agencies for costs relative to maintaining office and warehouse space in the capitol complex buildings managed by GSD. Included in the charges are utility, security and janitorial services, mechanical maintenance, and minor maintenance costs including such items as painting, lighting and carpeting. Warehouse costs are allocated to agencies based upon the amount of square footage of office warehouse space occupied; a fixed rate per square foot is used.

Grounds Maintenance

The Parks Division of FWP charges state agencies for grounds maintenance and snow removal at capitol complex buildings. Costs of these services are allocated based upon the square footage of office space occupied by a given agency.

Statewide/State Fund Cost Allocation Plan

Cost allocations are made to collect funds for the support of those state government operating costs that cannot be easily identified with particular funding sources. Collections are deposited to the general fund to offset a portion of those costs, which would otherwise be supported entirely with general fund.

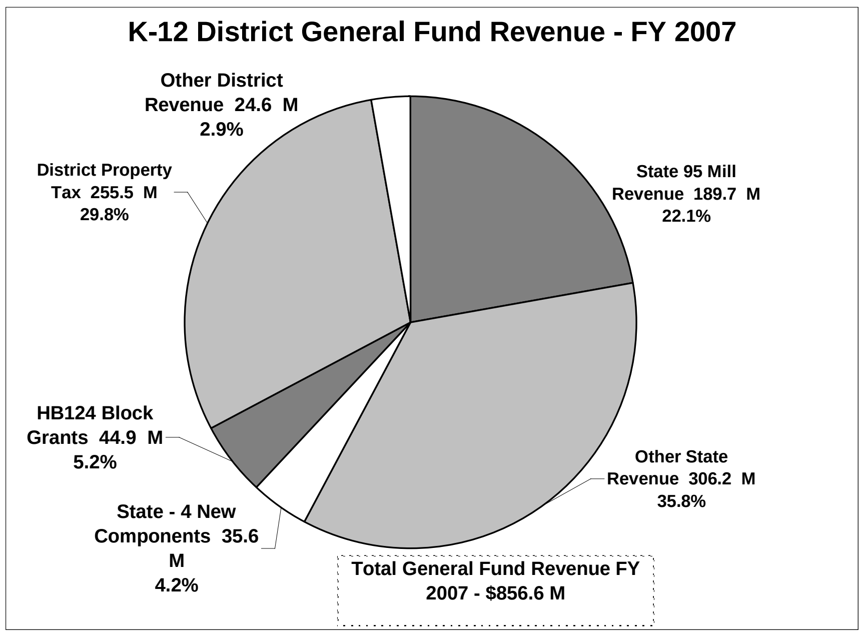
PUBLIC SCHOOL FUNDING – A PRIMER

OVERVIEW

The purpose of this section is to explain how K-12 education is funded. This section focuses on the major district and county funds for which the state supplies at least some of the funding.

Note: In November 2004, the Supreme Court upheld a district court decision that the current funding methodology was unconstitutional, as it was not based on educationally relevant factors. The decision also concluded the schools were under-funded. The 2005 Legislature developed a definition of a quality system of elementary and secondary schools. An interim committee worked to create a new funding system that would agree with that definition. A special session in December 2005 created four new funding payments for implementation in FY 2007 and added new on-going K-12 spending, as well as a revised method of funding k-12 education.

Figure 3



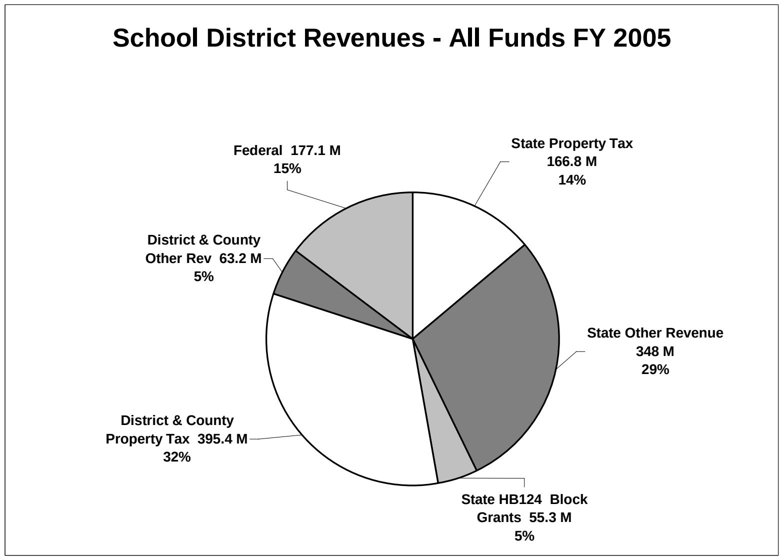
The state share is one of the more controversial concepts in school funding. The state share of district general fund revenue has declined over the years. In FY 1991, the state's share of district general fund revenue was 71.0 percent. As shown in Figure 3, the state's share of general fund revenue has fallen to 62.1 percent in FY 2005, although this is above the state share in recent years when it was as low as 60 percent. The state's share includes property tax (the 95 mills) and other state tax revenues (primarily income tax). The local share includes property taxes levied for schools by the district or the county, as well as other district and county revenue. HB 124 block grants, which include reimbursements associated with HB 20 and SB 417, are state payments to districts and county education accounts to reimburse these funds for revenues that now flow to the state.

As shown in Figure 4, the state's share of revenue in all district funds was 42.7 percent in FY 2005. State HB 124 block grants add another 4.6 percent.

School districts typically may spend out of ten budgeted funds, and many schools spend out of smaller non-budgeted funds. Any fund that is supported by property tax must be budgeted.

School districts' budgeted funds include: 1) general fund; 2) retirement fund; 3) transportation fund; 4) debt service fund; 5) bus reserve fund; 6) adult education fund; 7) tuition fund; 8) building reserve fund; 9) flexibility fund; and 10) technology acquisitions fund. This primer will focus on the first four of these, since state support in these funds is the most significant.

Figure 4



A Short History of Legislative Changes in K-12 Funding

Figure 5 shows the impact of legislation on BASE aid entitlements since FY 1994.

Figure 5

School District Entitlements

Component	FY1994 Actual	FY95-97 Actual	FY1998 Actual	FY1999 Actual	FY2000 Actual	FY2001 Actual	FY2002 Actual	FY2003 Actual	FY2004 Actual	FY2005 Actual	FY2006 Actual	FY2007 Actual
Bill Authorizing Entitlement Change	HB667	HB22	HB47	HB47	SB100	SB100/ HB4	HB121	HB121	SB424	SB424	HB63	HB63
Basic (Per District) Entitlements												
Elementary	$18,000	$17,190	$18,000	$18,000	$18,000	$18,540	$18,889	$19,244	$19,456	$19,859	$20,275	$20,718
Percent Change		-4.5%	4.7%	0.0%	0.0%	3.0%	1.9%	1.9%	1.1%	2.1%	2.1%	2.2%
High School	$200,000	$191,000	$200,000	$200,000	$200,000	$206,000	$209,873	$213,819	$216,171	$220,646	$225,273	$230,199
Percent Change		-4.5%	4.7%	0.0%	0.0%	3.0%	1.9%	1.9%	1.1%	2.1%	2.1%	2.2%
Per ANB Entitlements												
Elementary	$3,500	$3,343	$3,376	$3,410	$3,529	$3,763	$3,834	$3,906	$3,949	$4,031	$4,366	$4,456
Percent Change		-4.5%	1.0%	1.0%	3.5%	6.6%	1.9%	1.9%	1.1%	2.1%	8.3%	2.1%
High School	$4,900	$4,680	$4,726	$4,773	$4,821	$5,015	$5,109	$5,205	$5,262	$5,371	$5,584	$5,704
Percent Change		-4.5%	1.0%	1.0%	1.0%	4.0%	1.9%	1.9%	1.1%	2.1%	4.0%	2.1%
Per ANB Decrements												
Elementary	$0.20	$0.20	$0.20	$0.20	$0.20	$0.20	$0.20	$0.20	$0.20	$0.20	$0.20	$0.20
High School	$0.50	$0.50	$0.50	$0.50	$0.50	$0.50	$0.50	$0.50	$0.50	$0.50	$0.50	$0.50
Per ANB Decrement Stop Loss												
Elementary	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000
High School	800	800	800	800	800	800	800	800	800	800	800	800
GTB Guarantee Ratio	175%	175%	175%	175%	175%	175%	175%	175%	175%	175%	175%	175%
Base Budget Components												
Direct State Aid	40.0%	40.0%	40.0%	40.0%	41.1%	44.7%	44.7%	44.7%	44.7%	44.7%	44.7%	44.7%
Guaranteed tax base aid	40.0%	40.0%	40.0%	40.0%	38.9%	35.3%	35.3%	35.3%	35.3%	35.3%	35.3%	35.3%
Special Ed (Millions)	$28.5	$28.9	$28.5	$28.7	$30.0	$33.5	$33.9	$34.9	$34.9	$36.4	$38.5	$39.3

Bill and session year: HB 667, 1993; HB 22, Nov SS, 1993; HB 47, 1997; SB 100, 1999; HB 4, May SS, 2000; HB121, 2001; SB424, 2003. HB 63, 2005

In the regular session in 1993, HB 667 created the current system of school funding. The bill put into law the method by which districts build their general fund budgets and how they are to fund the general fund budget. (See below for the details). In essence districts build their general fund budgets by adding two entitlements defined in law, the basic entitlement (one per district) and the per ANB entitlement. ANB stands for Average Number Belonging and is a measure of the number of children in a district. The level of entitlements under HB667 was in operation for FY 1994 only. The legislature then passed HB22 during the special session of 1993 and cut entitlements by 4.5 percent for FY 1995 through FY 1997. On average statewide, ANB was increasing in these years.

HB47 was passed by the 1997 legislature and raised per-ANB entitlements beginning in FY 1998 by 1 percent per year, and the basic entitlement in FY 1998 by 4.7 percent.

SB 100 was passed by the 1999 legislature and increased per-ANB entitlements by 1 percent for high schools and by 3.5 percent for elementary schools in each year of the 2001 biennium. The direct state aid percent was raised from 40.0 percent to 41.1 percent in FY 2000 and to 41.8 percent in FY 2001. SB 100 also increased special education funding by approximately $1.5 million per year.

Then in special session in May 2000, HB 4 further raised the per-ANB entitlements in FY 2001 by 3.0 percent for both elementary and high school, and raised the direct state aid percent to 44.7 percent. The latter resulted in a substantial property tax reduction for local taxpayers in FY 2001.

During the 2001 legislative session, HB 121 raised entitlements by 1.88 percent in FY 2002 and by an additional 1.88 percent in FY 2003. In addition, SB 390 created a new flexibility account from which districts could spend for nearly the same purposes as the district general fund. The legislature funded the district flexibility accounts with $5.0 million in state general fund dollars. This was reduced to $4.3 million in the August 2002 special session, but no new dollars have been allocated for this fund since then.

During the 2003 legislative session, SB424 raised entitlements by 1.1 percent in FY 2004 and by 2.1 percent in FY 2005. In addition, entitlements were tied to inflation increases beginning in FY 2006. The inflation factors for FY 2006 and FY 2007 are 2.1 percent and 2.19 percent respectively. The inflation adjustment may be no larger than 3 percent.

In June 2004, District Court Judge Sherlock declared the current system of K-12 funding unconstitutional, stating it was not based on "educationally relevant factors". The decision also concluded that K-12 education is under-funded. The decision was upheld by the Montana Supreme Court in November 2004. The state was given a deadline of October 2005, to comply with the court findings. The 2005 Legislature developed a definition of a quality system of elementary and secondary schools. An interim committee attempted to create a new funding system that would agree with that definition.

In the December 2005 Special Session, the legislature created four new funding payments for implementation in FY 2007 and added both on-going and one-time spending increases to reflect the revised methodology.

DISTRICT GENERAL FUND

The current system of school finance was established in HB 667, passed by the 1993 legislature and first applied to school funding in FY 1994. HB 667 created a system of funding schools in which the state mandates the limits within which a school district may budget its general fund expenditures. The maximum and BASE budgets are related by a formula in statute to Average Number Belonging (ANB), which is enrollment in the prior year adjusted by teacher days. The maximum budget is the sum of the district's basic per-district entitlement, its per-ANB entitlement, and up to 200 percent of its special education allowable costs. The BASE (or minimum) budget for a district is the sum of 80.0 percent of the district's basic per-district entitlement, 80.0 percent of its per-ANB entitlement, and up to 140 percent of its special education allowable costs. In the special session in December 2005, four new payments were added to the BASE budget; 1) a per educator payment; 2) an at risk payment; 3) a close the American Indian achievement gap payment; and 4) an Indian education for all payment. See Funding the General Fund Budget below for an explanation of how these payments are calculated.

HB 667 allowed schools that had been budgeting above the newly created maximum budget in the past to continue budgeting at that level indefinitely. Subsequently, this grandfather clause was altered in HB 22 (1993 special session), which required district voters to approve any budget authority above the maximum budget.

In FY 1994 when the new system was first implemented, many schools had general fund budgets that were below the BASE budget. Districts with budgets below the BASE budget were required to incrementally increase budget authority and budget at the BASE level by FY 1998.

ANB and Maximum and BASE Budgets

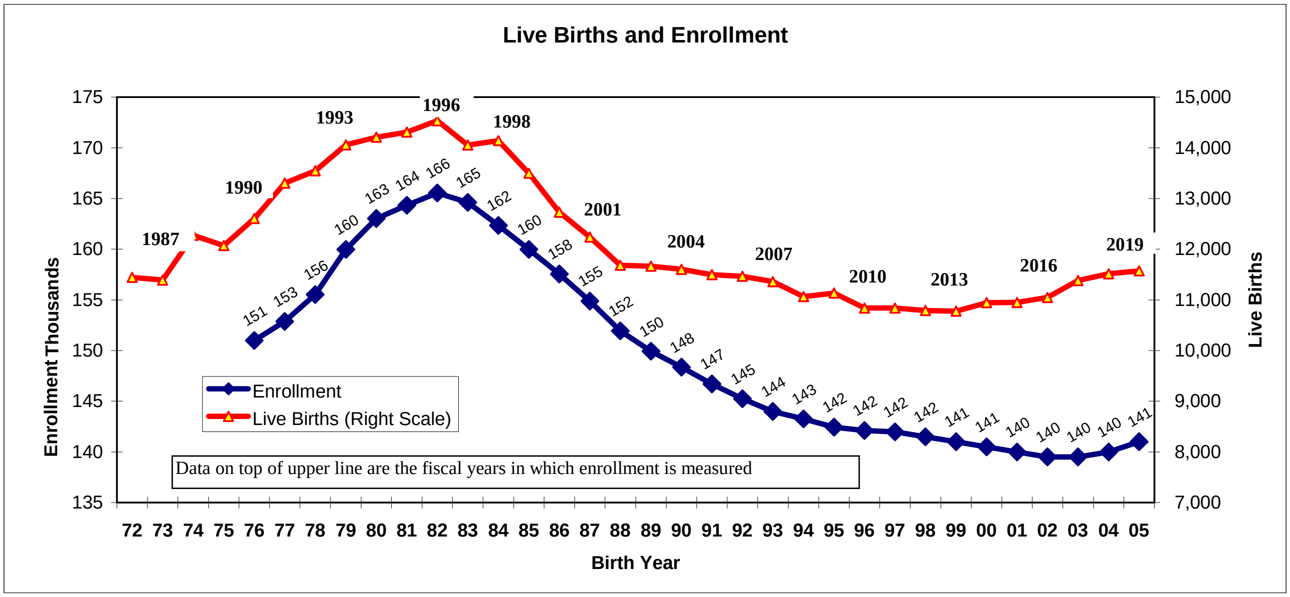
The maximum and BASE budgets are related by a formula in statute to ANB (which is enrollment in the prior year adjusted by teacher days). Districts may choose to use the current year's ANB or a three year average of ANB when building their budgets.

Enrollment

As shown in Figure 6, enrollment peaked in FY 1996 and has been declining since, mainly as a result of falling birth rates in the mid 1980's through the late 1990's. As of 2001, births have increased every year, and enrollment declines are expected to cease sometime in the next decade.

Between FY 1997, when ANB was at its peak, and FY 2005, ANB fell 12.4 percent. During the period, elementary ANB fell 16.4 percent and high school ANB fell 3.5 percent. In FY 2007 there were 20,488 fewer ANB served than in FY 1997. During the same period, basic entitlements were increased by the legislature 20.5 percent for both elementary and high school districts. Elementary per-ANB entitlements were increased 33.3 percent and high school per-ANB entitlements were increased by 21.9 percent, although the majority of this increase has come in recent years. Between FY 1997 and FY 2007, the most severe declines in ANB occurred in the elementary grades. The most severe declines in the future will be in the middle school and high school grades.

Figure 6



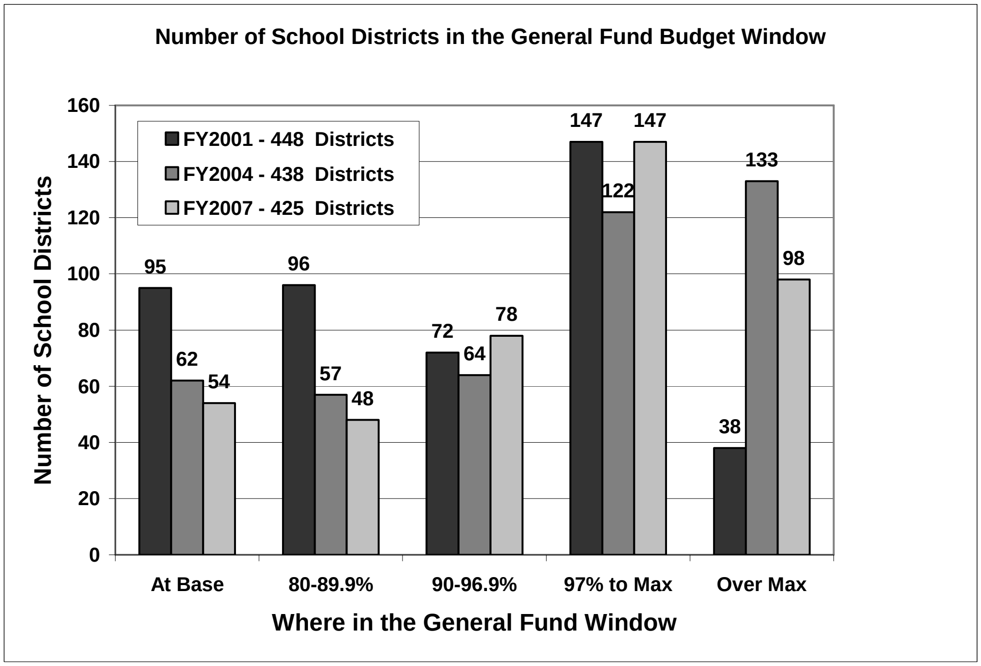
Inflation

As stated, maximum and BASE budgets are based on percentage of per district and per ANB entitlements and special ed. Beginning in FY 2006, both the per district and per-ANB entitlements are adjusted by the rate of inflation. The rate of inflation is the Consumer Price Index – Urban Consumers as published by the US Department of Labor. The rate is calculated as a three-year average lagged two years.

Distribution

Figure 7 shows the distribution of districts in the general fund budget window in FY 2001, FY 2004, and FY 2007 for all districts. The adopted general fund budget for each district is divided by the maximum budget for each year. The number of districts in each of the brackets is then counted. The number of districts budgeting at the BASE level and below 90 percent has declined significantly. Many districts facing declining enrollments found their maximum and BASE budgets falling while they attempted to maintain their actual adopted budgets.

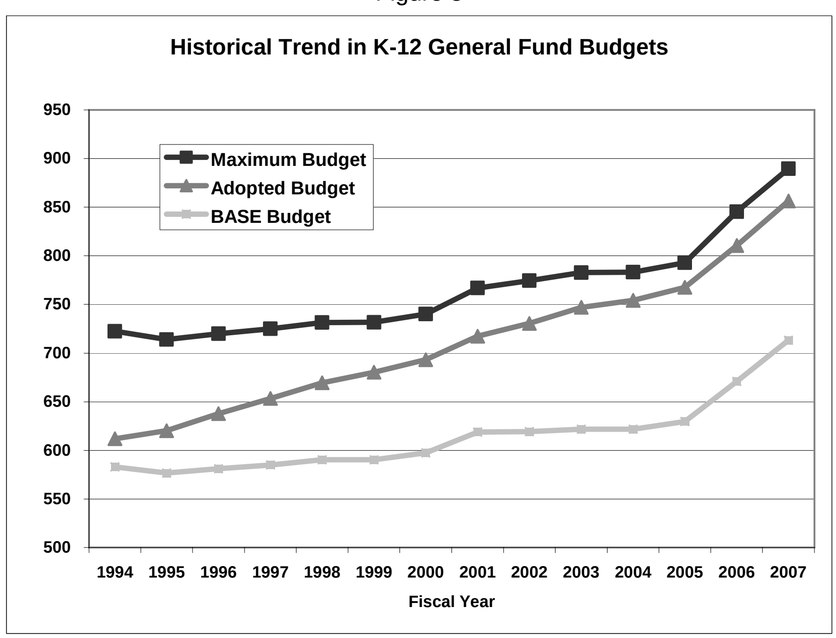
Figure 7



The number of districts budgeting above 90 percent and below the maximum budget has not changed much. However, the number of districts budgeting above the maximum budget has grown substantially, although in FY 2007 the number has fallen due to the addition of the four new payments, which expanded the budget authority of each district. Districts that budget above the maximum budget, as per SB 390 passed during the 2001 legislative session, are allowed to budget above the maximum budget for 5 years with voter approval. These are called “soft caps”. Districts that have used the soft cap rule for five years must budget at the maximum budget beginning in the sixth year. For some districts this will be in FY 2007.

As shown in Figure 8, the average general fund budget as a percent of the average maximum budget in FY 1994 was about 84.0 percent. This has risen to 96.3 percent in FY 2007, primarily as a result of reduced ANB, which was more than offset by legislated entitlement increases and voter approved increases in general fund budgets.

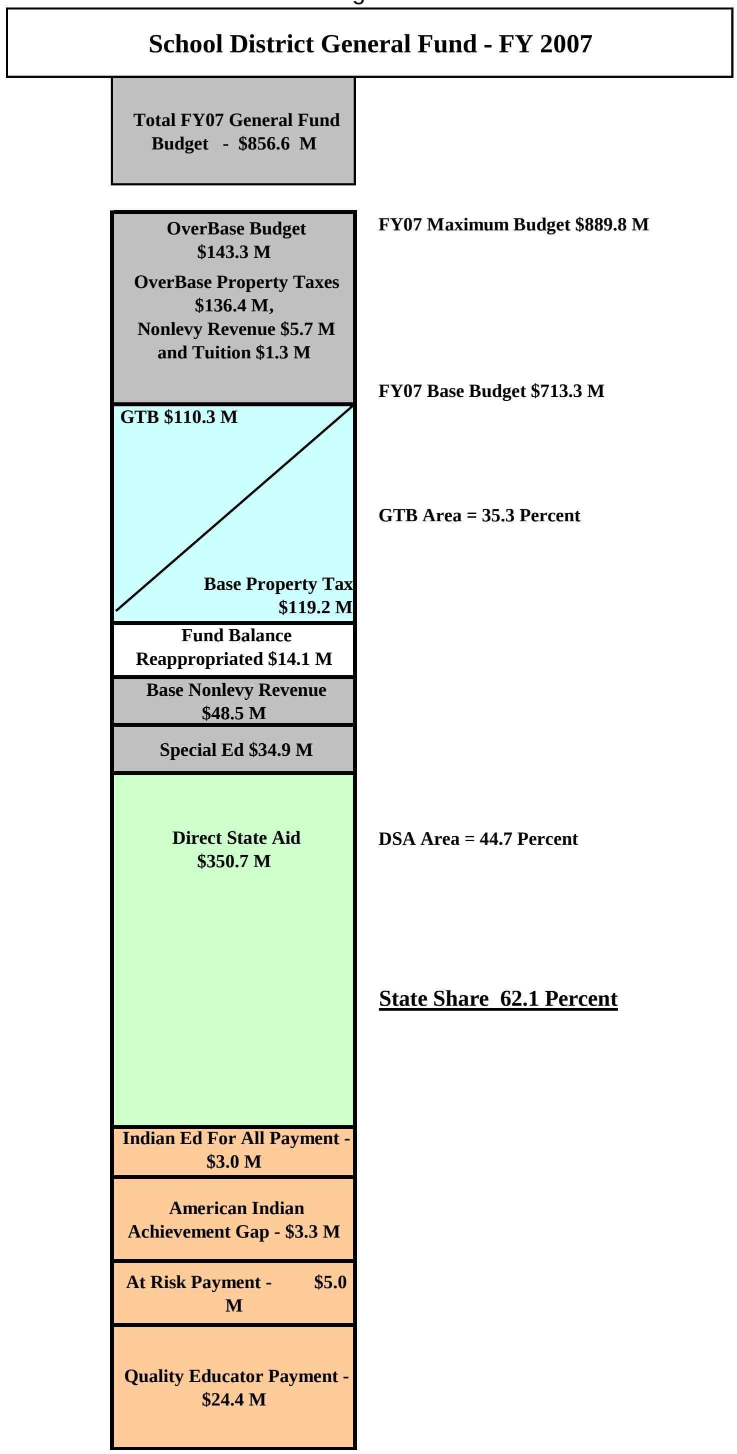
Figure 8



Funding the General Fund Budget

As shown in Figure 9, districts' general fund budgets are funded by state and local funds. State funds consist of the four new payments, direct state aid, state guaranteed tax base (GTB), state special education grants and state HB 124 block grants. The sources of local funding are nonlevy revenue (oil, natural gas, and coal receipts investment interest), property taxes, and reappropriated fund balances.

Figure 9



As stated, during the December 2005 special session the legislature created four new payments, each of which is paid 100 percent from the state general fund. The quality educator payment is $2,000 per licensed educator (including teachers and administrators and specialized staff) in the previous school year in each district. The amount in FY 2007 is $24.4 million for 12,183 FTE.

The at-risk payment must be distributed to public school districts by the Office of Public Instruction in the same manner that the Office of Public Instruction allocates the funds received under the federal Title 1 statute, which distributes money to disadvantaged children defined by the income of their parents. The amount for FY 2007 is $5 million.

The American Indian Achievement Gap payment is distributed $200 per American Indian student enrolled in the district based on the count of regularly enrolled students on the first Monday in October of the prior school year. In FY 2007, this payment is $3.3 million spread over 16,398 American Indian students in 265 out 425 districts.

The Indian Education for all payment is distributed $20.40 per ANB, or $100 per district, whichever is greater. For FY 2007, it is $3.0 million.

Direct state aid is a grant from the state to the district. In FY 2007, direct state aid is 44.7 percent of total entitlements used to calculate the maximum budget. The direct state aid percent was 40.0 percent until FY 2000 when it was raised to 41.1 percent. The current level of 44.7 percent was instituted during the May 2000 special session for FY 2001. Because it is directly related to entitlements, the geographic distribution of direct state aid is directly related to where children live.

The portion of the budget above the level funded by direct state aid and below the BASE budget is called the GTB budget area. This is partially funded by a combination of special education revenue from the state, state HB 124 block grants, nonlevy revenue, and fund balance reappropriated. The total of these revenue sources is $94.5 million in FY 2007. The remaining area of the GTB budget is funded with state GTB aid and property taxes.

Special education revenue ($34.9 million in FY 2005) reimburses districts for allowable costs associated with special needs children. Nonlevy revenues are revenues from taxes on oil, natural gas, and coal, investment earnings and state HB 124 block grants. These revenues are distributed based on where the revenue was earned and are unrelated to the number of children in a district.

Beginning in FY 2002, HB 124 block grants are payments made by the state to districts to reimburse districts for revenue that now flows to the state. These revenues were motor vehicle taxes, taxes on financial institutions, and reimbursements from the state for legislated reductions in districts' business equipment property tax base in prior sessions. While HB 124 block grants are state appropriations to schools, they do not represent an infusion of new state money into district budgets, but rather replace money that used to be considered local revenue. To the extent these monies were reimbursements for property tax cuts in previous sessions, HB 124 block grants are highly dis-equalizing since the money flows where this property used to be and not where the children are today.

Reappropriated fund balances are unreserved general fund balances left over from the previous year (approximately $14.1 million in FY 2005). A district may hold in reserve at most an amount equal to 10.0 percent of its general fund budget, and must reappropriate the rest in the ensuing year. When districts under-predict current year revenues, fund balances reappropriated in the following year go up, and vice versa.

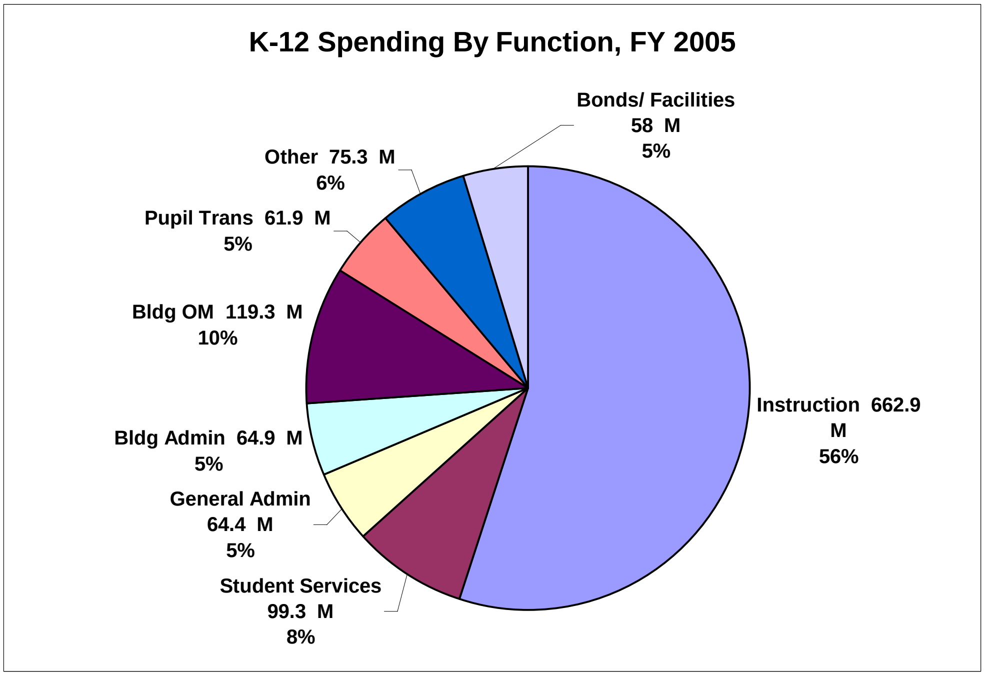
The remaining portion of the GTB area is funded by BASE property taxes ($119.2 million in FY 2007) and state GTB aid ($110.3 million in FY 2007). The amount of GTB aid a district receives depends on its relative wealth, as measured by taxable value per dollar of BASE budget. A relatively poor district's BASE mill levy generates local property taxes and a certain amount of GTB aid. The poorer the district, the more a BASE mill will be worth in terms of GTB aid. Statewide, the average ratio of GTB aid to BASE property tax revenue is a little less than one. This may vary from zero for wealthy districts to over ten for poor districts.

Districts that budget above the BASE level must do so out of own-source revenue and tuition from other districts, parents, or the state. Some districts are able to use nonlevy revenue to fund a portion of this budget area, but the vast majority levy overBASE mills against property. OverBASE property taxes are $136.4 million in FY 2007, and are a growing source of revenue for district general fund budgets. OverBase property taxes were only $34.8 million in FY 1994.

District General Fund Spending by Function

Figure 10 shows spending by school districts by function. Instruction consumes approximately 56 percent of all spending by districts. Administration accounts for another 10.0 percent. The remaining functions include transportation, student services, spending on facilities, and other expenses. These data do not include spending from the adult education fund, the building fund, trust funds, and enterprise funds.

Figure 10



Special Education

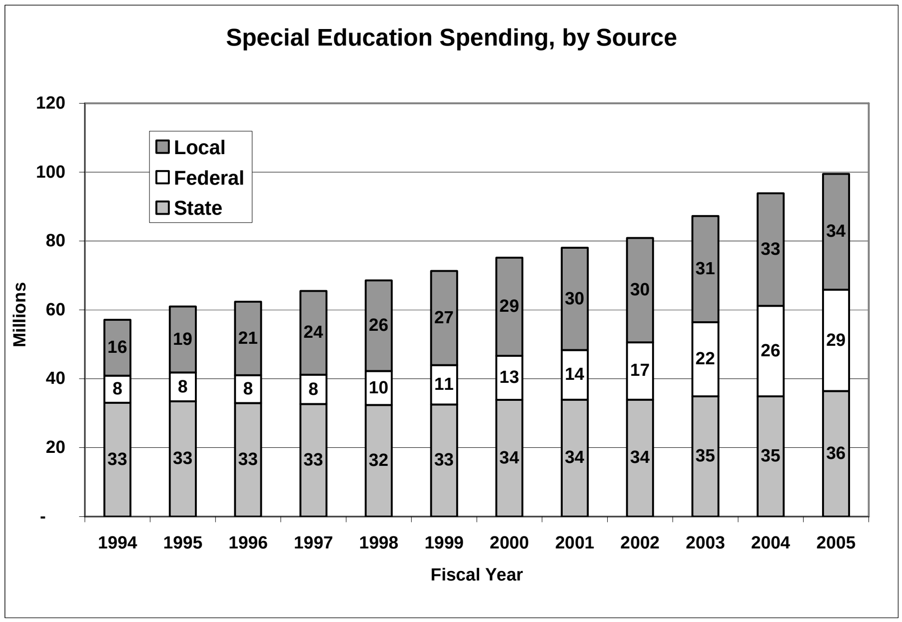
The state will pay approximately $39.3 million in FY 2007 in special education grants and reimbursements to districts and special education cooperatives. Special education cooperatives are groups of districts offering special education services. Districts and coops receive about 88.8 percent of this money in their general funds and spend it for services to children with various disabilities or impairments. The remainder (11.2 percent) is used for coop travel and administration for those districts that use coops to deliver their special education services. The disabilities range from speech-language impairments and physical impairments to multiple disabilities.

In FY 2005, there were 19,515 students identified as special education children, 13.3 percent of all children in public schools. In FY 2005, districts and coops spent $70.1 million in state and local contributions and $29.4 million in federal contributions on the allowable costs associated with the education of impaired students. Allowable costs are defined by the state, which provides grants for special education instruction and related services (70 percent), which are based on enrollment. State reimbursements (25 percent) are made to schools with extraordinary special education costs. As costs have risen, the amount of reimbursements has also risen.

For every $3 the state spends in special education block grants, the local district must contribute $1. A district that is a cooperative member is required to provide the 25 percent match of the special education-related services grant amount to the special education cooperative.

The proportion of the total state appropriation distributed in the form of reimbursement for disproportionate costs grew both in total dollars and in the number of districts receiving reimbursement for disproportionate costs through FY 2001. The funding for disproportionate reimbursement was revised in FY 2002 to hold constant the proportion of funds distributed under reimbursement for disproportionate costs and shift funding back to instructional and related services block grants. Today, any increase in funds distributed for purposes of reimbursement of disproportionate costs is due to an increase in overall appropriations for special education.

Figure 11



The state special education grants and reimbursements flow to district general fund and are incorporated in calculating a district's maximum and BASE general fund budget limits. For each dollar increase in district receipts of state special education dollars, the maximum budget of the district increases by $2.00 and the BASE budget increases by $1.40. Increases in special education receipts by districts also increase the state GTB aid paid to a district, since GTB aid depends on the level of the BASE budget.

As stated, special education students were about 13.3 percent of the student population in FY 2005. Enrollments of special education students grew by close to 2 percent per year between FY years 1991 and 1994, but growth has been less than 1 percent since then. A new state funding system was put in place in FY 1994 that granted districts state special education dollars based on the number of ANB in the entire district. The old system had granted such dollars based on the number of identified special education students in each district.

The amount the state appropriates in special education grants to districts and cooperatives remained between $32.0 and $33.0 million between FY 1989 and 1999, but has risen to $39.3 million in FY 2007. Districts and co-ops spent $57.1 million in FY 1994 for special education programs and $99.5 million in FY 2005, an annual growth rate of 5.2 percent per year. The state share of these costs has fallen commensurately and the local share of special education costs has risen from $16.2 million in FY 1994 to $33.7 million in FY 2005.

Districts spend more on special education students than regular students. Spending for special education students was 162.4 percent of spending for regular students in FY 2005.

Voting Rules

Many of the decisions regarding the level and funding of general fund budgets must by law be referred to district voters. Beginning in FY 2001, the general fund voting provisions for districts adopting a general fund budget between the BASE and the maximum budget limits were amended to require voter approval for an increase in overBASE property tax revenue. Previous law had required a vote in order to increase ensuing year budgets above current year budgets regardless of the property tax revenue consequences. Under the new law, if an increase in budget authority can be funded without increasing overBASE property taxes revenue, the budget increase does not require voter approval. A 4 percent limitation on annual budget growth, or on annual budget growth per ANB, was in effect until July 1, 2001. HB 164, passed during the 2001 legislative session, eliminated the growth cap, and districts may now increase their general fund budget by any amount up to the maximum with voter approval.

The 1999 legislature also changed the budgeting rules for districts with declining enrollments. General fund budget limitations were amended for districts that are: 1) budgeting between the BASE and maximum budgets; and 2) have declining ANB populations. If ANB declines less than 30.0 percent and the district's current year adopted budget exceeds the district's ensuing year maximum budget, the district may adopt a budget for the ensuing year that is the greater of the current year budget or the ensuing year's budget, subject to voter approval. The district may not exceed its maximum budget limit for more than five consecutive years.

If ANB declines by 30.0 percent or more and the district's current year adopted budget exceeds the ensuing year's maximum budget, the district must reduce the range between the district's current year budget and the ensuing year's maximum budget by:

- 20.0 percent in the first year
- 25.0 percent in the second year
- 33.3 percent in the third year
- 50.0 percent in the fourth year
- the remainder of the range in the fifth year

Districts that have general fund budgets exceeding the maximum budget must annually ask voters to approve the part of the budget in excess of the maximum. However, the budget adopted for the current year may not exceed the lesser of: 1) the adopted budget for the prior year; or 2) the district current maximum budget plus the over-maximum budget amount adopted for the prior year. If a district's budget in the current year is below the BASE budget in the upcoming year, either due to ANB increases or legislated increases in entitlements, district trustees must increase the budget to the BASE budget level and no voter approval is required.

Effective in FY 2000, the regular school and trustee election date is changed to the first Tuesday after the first Monday in May. Only one levy election may be held in a calendar quarter.

DISTRICT TRANSPORTATION BUDGET

Montana law provides for two types of public school transportation - a publicly funded home to school bus program and/or individual transportation contracts with a student's parents or guardian. School bus transportation may be provided directly by the school district, or the trustees of a district may contract with a private contractor to provide bus transportation for eligible students.

The trustees of a district may provide school bus transportation to any pupil of a public or private school. However, the district will receive reimbursement from the state and county only for eligible transportees. An eligible transportee must:

- Be a resident of the State of Montana and attend a public school in Montana
- Be between the ages of 5 and 21 or be a preschool child with disabilities between the ages of 3 and 6
- Reside <u>at least 3 miles</u> from the nearest operating public elementary school or high school
- Be considered to reside with his or her parent or guardian, who maintains legal residence within the boundaries of the district furnishing the transportation, regardless of where the eligible transportee lives when attending school

The trustees of a district are not required by law to provide pupil transportation unless directed to do so by the county transportation committee. However, if the trustees decide to furnish transportation for any eligible transportee, they must ensure transportation for all eligible transportees. In addition, trustees may direct that children within three miles of a school be transported. However, in doing so the district will not be reimbursed by the state.

On-Schedule Costs

A district's transportation budget is funded by receipt of state reimbursements for on-schedule costs, an amount that is matched by the county, and by district revenues, which fund "over-schedule" costs.

On-schedule costs are defined by the legislature and are expressed on a per mile basis. The per mile schedule costs depend on the size of the bus. Before FY 2004 these costs were adjusted depending on the extent that the bus is filled with riders. On-schedule costs are determined as the product of the per mile amount times miles traveled times 180 days. The state general fund reimbursement is one-half this amount or one-half the amount a district budgets for transportation, whichever is less. The county must match the state reimbursement amount with funds derived from the county school transportation fund. County revenues in the county transportation fund include non-levy revenue and property tax revenues.

District over-schedule costs are the difference between the transportation fund budgeted amount and state and county on-schedule reimbursements. Some districts are able to provide transportation services for the on-schedule amount, but the vast majority of districts incur costs above the on-schedule amount. On-schedule costs vary between 95 cents per mile per day and $1.80 per mile per day with larger buses receiving the larger reimbursement. Larger districts generally have higher per mile costs than small districts. Small districts have generally higher costs per ANB, and per ANB per mile, than do large districts.

Districts fund the over-schedule amount through a combination of non-levy revenues and district property taxes. District trustees may budget the over-schedule amount at their discretion and are not required to ask voters to approve that level. For on-schedule costs, the county superintendent determines the property tax requirements, and the county commissioners set the required levy.

In FY 2005, total district spending on transportation was $54.1 million. On schedule costs were $24.4 million, of which half was paid by the county and half by the state.

Some districts budget for transportation but do not engage in providing transportation. These districts do not own buses and do not contract with a private bus company. In many cases, these districts coordinate their transportation needs with a nearby district. For instance, many elementary districts coordinate with their high school district, if the high school is in the same community.

Approximately one-third of the bus routes in Montana are contracted with private bus companies. These contracts are usually observed in the larger districts. Some small districts, however, also contract and may contract with many private individuals to provide bus service. Contracts in the larger districts are often multi-year, and some provide inflation adjustments and/or gas price adjustments. The contracts are usually on a per mile basis or on a yearly basis for a set number of miles per day. The bus company usually must provide specially equipped buses and bus aides if necessary.

School districts may also contract with parents or guardians of pupils in need of transportation. Under section 20-10-142, MCA, the state and county must reimburse a district that makes a contract with a parent or guardian for transportation of eligible transportees at a minimum rate of 35 cents per mile per day. The district may contract with a parent at a higher rate, and in fact federal rules regarding transportation of special needs students require that parents be reimbursed by the district at 29 cents per mile. Allowable miles are determined by multiplying the distance between the eligible transportee's residence and school, minus 6 miles. The total reimbursement is limited to one round trip per day. Districts with parents who transport their children to the nearest bus stop on an approved route are also reimbursed 35 cents per mile per day, with 3 miles deducted from the distance between the home and the bus stop.

RETIREMENT FUND

School districts employing personnel who are members of the teachers retirement system or other defined retirement systems must establish retirement funds from which to pay the districts' contributions to the systems. The amount each district must pay into the retirement fund is set by statute and is a set percentage of the employee's annual wage, and includes payments to the retirement system, social security, Medicare and unemployment insurance. Thus the spending requirements in the retirement fund increase with increases in wages and in the number of employees. Also, because teacher wages are paid from the district general fund, the level of spending in the retirement fund is closely related to the level of spending in the general fund. Retirement costs associated with salaries in other state and federal funds are also paid for out of the district retirement fund. Districts may hold up to 35 percent of the final retirement budget in reserve, and any money above that must be reappropriated in the ensuing budget year.

The retirement fund is managed at the county level. The county collects the money and deposits it in district retirement accounts. The district then pays for the retirement contributions. The county retirement fund is funded by nonlevy revenue, state GTB, and local property taxes. A county is eligible for GTB if its taxable value per ANB is less than 121.0 percent of the state average taxable value per ANB. The amount of state GTB varies inversely with the value of a county's taxable property per ANB. Thus, less wealthy counties receive more GTB aid than do relatively more wealthy counties.

The retirement fund has been a nonvoted fund. That is, the county superintendent determines the amount of the levy, and the county commissioners fix and set the levy without putting the issue before the voters.

The total payment to districts by counties in FY 2005 was $96.6 million. The state GTB payment to counties for retirement purposes was $22.0 million in FY 2005.

Beginning in FY 2005, retirement costs for federal employees (except those paid for with Indian Impact aid) must be paid out of federal funds, not state or local funds, with exceptions for employees funded by a special education cooperative inter-local fund, the districts' food services fund, and any other state or local fund.

DEBT SERVICE FUND

School districts utilize a debt service fund to make debt service payments on bonds that have been sold to investors. The sale of bonds may be for purposes of capital construction, purchase of certain equipment or vehicles, refinancing past bond issues, or for funding a judgment against a district. SB 424 (2003 session) expanded eligibility for the program to those districts with bonds that were sold before July 1, 1991.

Under a formula in statute, a school district's facility reimbursement is a set dollar amount per ANB in the district, which varies depending whether the student is in grades K-6, 7-8 or in high school. The K-6 entitlement is $300 per ANB, the 7-8 entitlement is $370 per ANB, and the high school entitlement is $450 per ANB. In order for a school to receive a capital outlay reimbursement from the state, it must be GTB-eligible. Its taxable value per ANB must be below 140 percent of the state average taxable value per ANB. If a district is GTB-eligible, its school facility reimbursement is the lesser of its actual debt service expenditures or the calculated reimbursement. When the total statewide available reimbursements required exceed the amount available in the state appropriation, the reimbursements are prorated to the eligible districts.

The number of districts receiving school facility payments has grown from 19 districts in FY 1995 to 102 districts in FY 2006. State spending on school facility payments has grown from $1.0 million in FY 1995 to $9.4 million in FY 2006 on statewide school district debt service obligations of $37.3 million, for a state share of around 25 percent. In the late 1990's, the growth in demand by districts for school facility payments outstripped the growth in the level of the state appropriation. Between FY 1995 and 1999 the pro rata percent was between 72 and 87 percent. Because of the increase in the state appropriation in FY 2006, the pro-rata percentage was at 100 percent.

The legislature passed SB 457 during the 2001 legislative session, which allowed districts to use up to 25 percent of their federal impact aid revenues for debt service. Federal impact aid revenues flow mostly to districts on Indian reservations.

TOTAL SPENDING ON K-12

The figure below shows historical total spending by districts on K-12 education between 1991 and 2005. Also shown is the state, federal, and local sources of revenue. Equalized state revenue is revenue received by districts that is based on number of children in the district, or the costs of delivering services to children in the district. Non-equalized state revenue is revenue that is distributed without respect to the number of children in the district. These revenues include HB 124 block grants and the remaining property tax reimbursements (HB20/SB417). Federal revenues include those that pass through OPI as well as direct federal payments to districts (impact aid monies). Local sources are property taxes, nonlevy revenue, and cash reappropriated.

As shown in the figure, total spending on K-12 grew 63.0 percent (3.6 percent per year) between 1991 and 2005 while inflation was 43.1 percent (2.6 percent per year). In the same period, state equalized funding grew 25.6 percent (1.6 percent per year), total state funding grew 37.0 percent (2.3 percent per year), federal funding grew 184.3 percent (7.7 percent per year), and local sources grew 75.6 percent (4.1 percent per year).

Figure 12

Historical K-12 Spending Data, by Source of Spending
Profile Data - 1991-2005

Fiscal Year	Equalized State Spending	Nonequalized State Reimbursements	Total State Funding	Local	Federal	Total School Spending	State Share	CPI-U Jul-Jun Inflation
1991	$410,068,339	$6,194,034	$416,262,373	$261,244,899	$62,292,449	$739,799,721	56.3%	133.92
1992	410,683,944	6,194,034	416,877,978	288,276,952	67,504,393	772,659,324	54.0%	138.21
1993	449,284,428	6,194,034	455,478,462	280,496,495	71,248,888	807,223,844	56.4%	142.53
1994	449,022,117	6,194,034	455,216,151	316,568,353	78,593,987	850,378,491	53.5%	146.22
1995	454,407,079	6,194,035	460,601,114	322,033,178	82,291,327	864,925,619	53.3%	150.41
1996	456,761,270	14,107,524	470,868,794	331,652,997	85,761,667	888,283,458	53.0%	154.50
1997	461,430,512	14,107,524	475,538,036	356,982,459	87,510,909	920,031,404	51.7%	158.91
1998	475,819,055	14,107,524	489,926,579	363,980,491	98,565,659	952,472,728	51.4%	161.74
1999	463,136,715	14,107,524	477,244,239	392,463,959	106,952,451	976,660,649	48.9%	164.54
2000	478,973,310	19,716,889	498,690,199	380,507,204	124,778,384	1,003,975,788	49.7%	169.29
2001	504,920,062	43,932,391	548,852,453	386,035,173	123,577,327	1,058,464,953	51.9%	175.09
2002	489,205,888	77,646,820	566,852,708	385,032,759	143,671,140	1,095,556,607	51.7%	178.19
2003	504,044,202	71,967,152	576,011,354	407,450,946	163,400,823	1,146,863,124	50.2%	182.11
2004	508,181,340	56,298,948	564,480,288	439,560,383	176,465,571	1,180,506,242	47.8%	186.09
2005	514,843,803	55,306,755	570,150,558	458,657,444	177,067,526	1,205,875,528	47.3%	191.69
Annual Growth	1.6%	16.9%	2.3%	4.1%	7.7%	3.6%	-1.2%	2.6%

Nonequalized State Reimbursements are: HB124 Block Grants (2001 session), HB 20 reimb (1989 session) and SB417 Reimbursements (1995 session)

Nonequalized because money does not follow kids, but rather goes to jurisdictions where property was before reimbursements for tax reductions were instituted.

For information about the K-12 executive budget, please Legislative Budget Analysis, Volume 7, Section E, Office of Public Instruction.

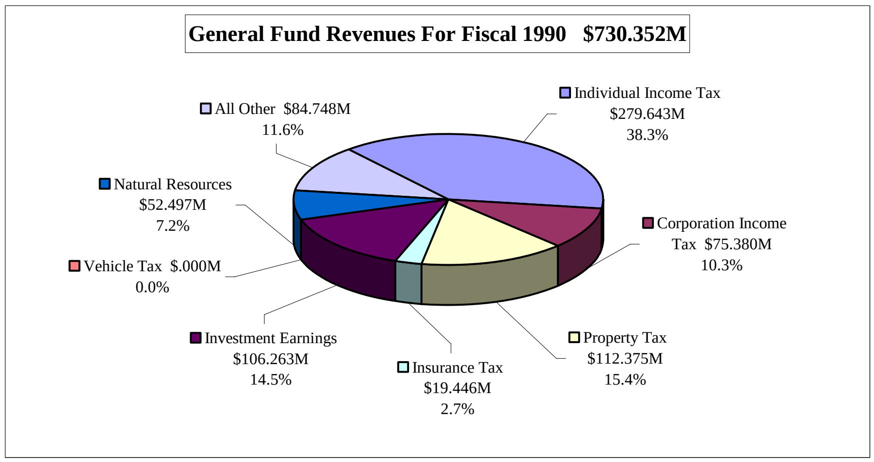
GENERAL FUND - HISTORICAL PERSPECTIVE

REVENUE HISTORY

The historical pattern for finances in Montana has followed an upward trend. From FY 1990 to FY 2006, total revenues have increased over 133 percent while expenditures have increased over 126 percent.

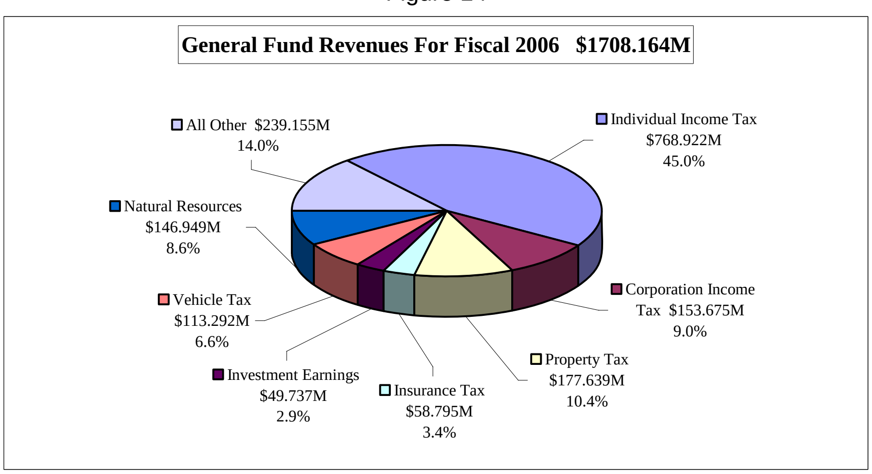
From FY 1990 through FY 2006, the relative importance of the revenue components has changed rather significantly. In FY 1990 and in FY 2006, the largest component of general fund revenue was receipts from individual income tax. As shown in Figure 13, individual income tax made up 38.3 percent of total general fund revenues in FY 1990. Property tax collections were next, with receipts amounting to 15.4 percent of all general fund revenues. Investment earnings followed, adding 14.5 percent of the receipts to the revenue base. Corporation income tax contributed 10.3 percent to the revenue base.

Figure 13



In FY 2006, individual income tax receipts increased in terms of its relative importance to the total general fund, making up 45.0 percent of total receipts. Property tax collections were 10.4 percent of general fund receipts, while investment earnings fell in relative importance to only 2.9 percent of total revenues. Corporation income tax receipts were 9.0 percent of total revenues. Total general fund revenues for FY 2006 are shown in Figure 14.

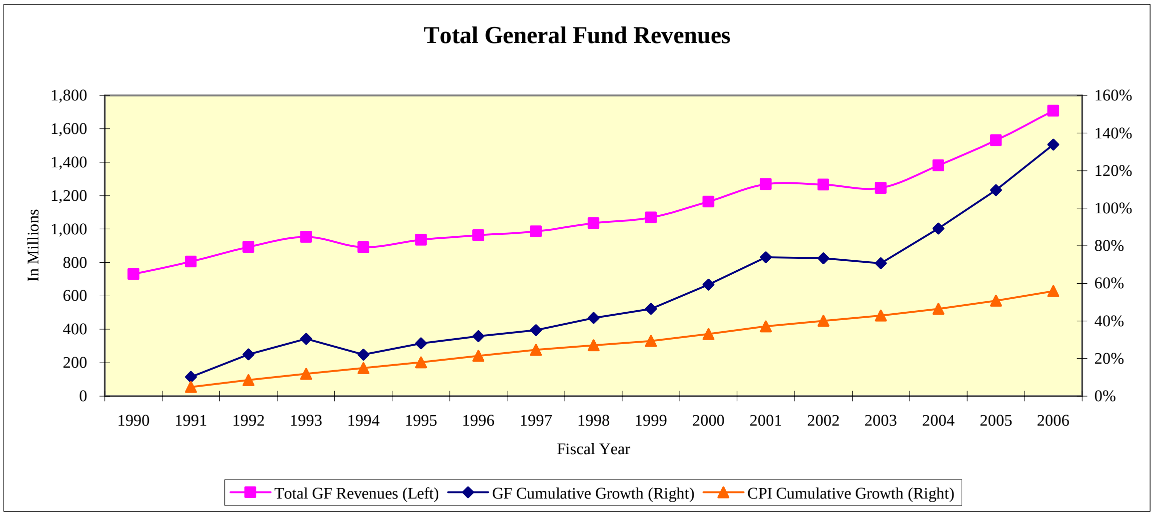
Figure 14



Over the 17-year period spanning from FY 1990 through FY 2006, revenues have increased substantially. General fund revenues during the period have increased by over $977.8 million, from $730.4 million in FY 1990 to $1,708.2 million in FY 2006. This represents an increase of more than 133 percent in nominal terms. In real terms, when adjusted for inflation, the change is over 50 percent. This rate of growth is significant and can be traced to the increases in individual income tax, corporation income tax, vehicle taxes, and natural resource taxes. Since FY 1990, individual income tax has increased by 76.5 percent in real terms, and the general fund portion of property tax has increased by 1.4 percent in real terms.

Figure 15 depicts the cumulative increases of general fund revenues in both dollar and nominal percent terms for the 17-year period.

Figure 15



Expenditure History

General fund expenditures have also increased substantially since FY 1990. A portion of the increase is attributable to increased state spending due to personnel costs and other inflationary pressures. Further increases can be explained by growth in human service caseloads, prison population, and public school funding increases, as well as new initiatives and program expansions approved by the legislature.

Figure 16

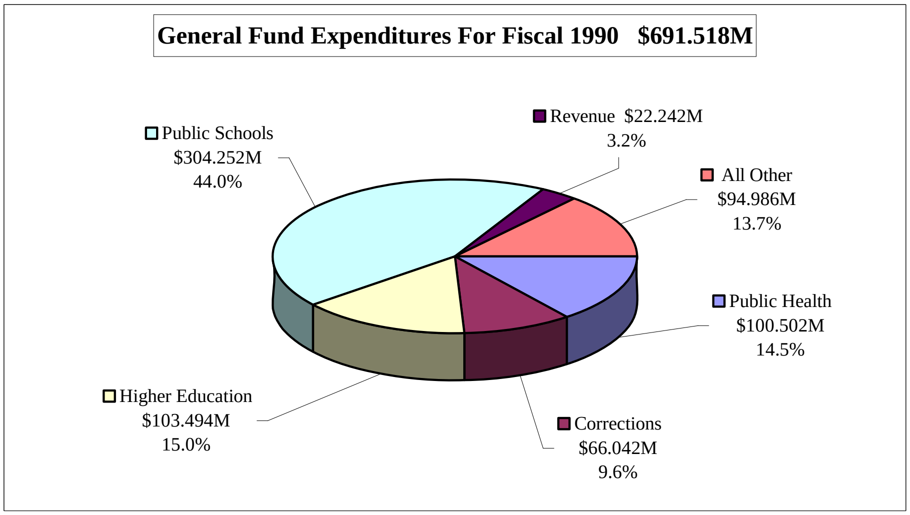
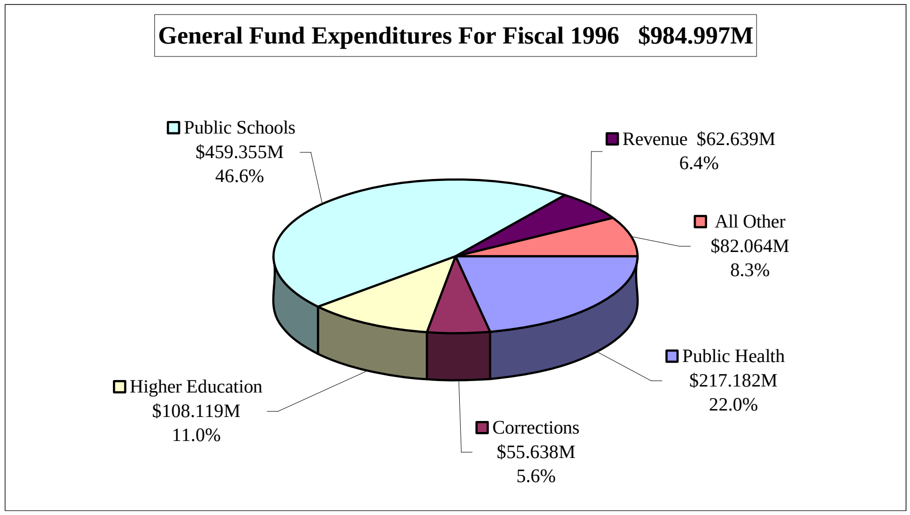


Figure 16 shows the general fund expenditure components for FY 1990, along with the dollars expended and the percent of total general fund spending. In all years, expenditures for public schools are the greatest portion of total general fund expenditures, consuming 44.0 percent of general fund dollars in FY 1990. Expenditures for higher education were the second highest area, utilizing 15.0 percent of general fund revenues. At that time, public health expenditures were only 14.5 percent of total general fund spending.

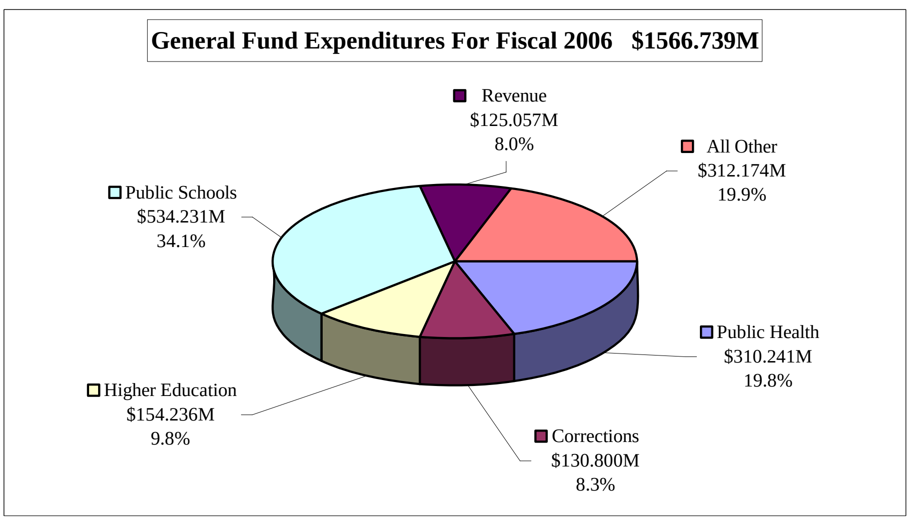
Figure 17



In FY 1996, the legislature reorganized public health entities, which moved health service related functions into one agency. Consequently, general fund expenditures for public health accounted for 22.0 percent of total general fund expenditures. The expenditures for higher education increased in the period between FY 1990 and FY 1996 by 4.5 percent and dropped to the third highest area in total general fund spending. Public school funding also increased in FY 1996. Consequently, general fund support for schools increased to 46.6 percent of total general fund expenditures. Figure 17 shows the FY 1996 general fund expenditures.

By FY 2006, public school funding dropped relative to the percent of total general fund. As seen in Figure 18, public schools consumed 34.1 percent of available general fund dollars. Public health, the second largest consumer, expended 19.8 percent of total general fund monies. Higher education share of general fund expenditures by FY 2006 dropped to 9.8 percent of the total.

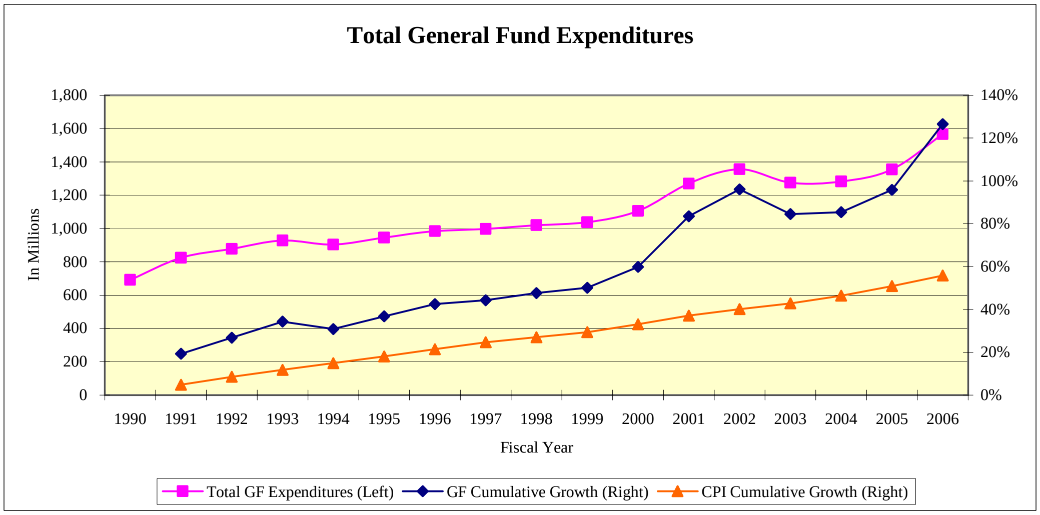
Figure 18



During the 11-year period between FY 1996 and FY 2006, total general fund expenditures increased from $985.0 million to $1,566.7 million. This corresponds to a nominal increase of 59.1 percent but an increase in real terms of 24.0 percent. The greatest portion of this increase was seen in the three program areas, public schools, public health, and higher education.

Since FY 1996, public school expenditures have increased from $459.4 million to $534.2 million, a decrease of 9.4 percent in real terms. Public health expenditures have increased from $217.2 million to $310.2 million, increasing over 11.3 percent in real terms. Higher education has experienced increases from $108.1 million to $154.2 million in the eleven year period. This represents an 11.2 percent increase in real terms. Figure 19 depicts the cumulative increases of general fund expenditures in both nominal dollar and percent terms for the 17 year period.

Figure 19



FEDERAL FUND EXPENDITURES

While general fund expenditures have increased cumulatively almost 45.4 percent in real terms since FY 1990, federal funds have increased by 125.1 percent. Montana has become substantially more dependent upon federal funds to support its expenditures, as illustrated in Figure 20.

Figure 20

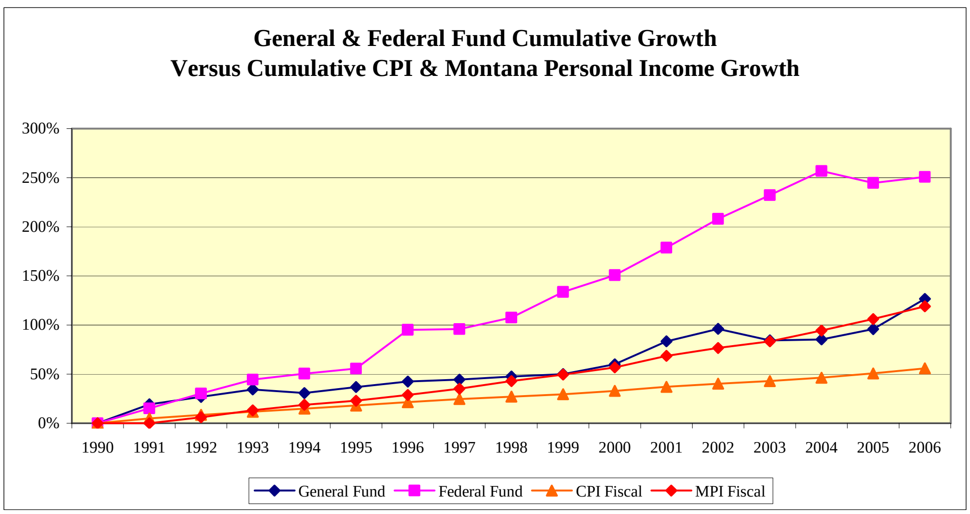
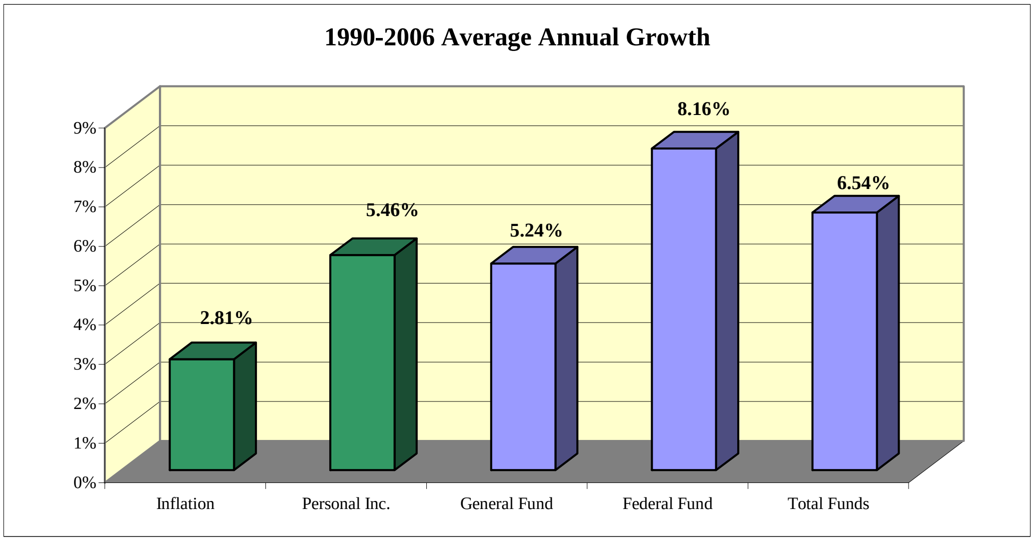


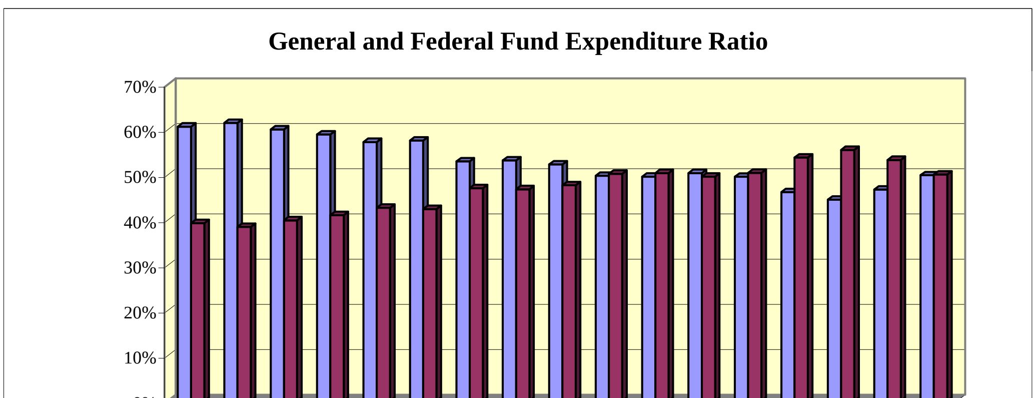
Figure 21 shows the nominal average annual growth over the 17 year period for the CPI, Montana personal income, general fund, federal funds and total funds. Annual growth for the general fund has been 5.2 percent in nominal terms over the 17-year period. Nominal annual growth in federal funds has been 8.2 percent. The average annual nominal growth for both fund sources is 6.5 percent, or 3.6 percent when adjusted for inflation, as shown in Figure 19. During this same time period, inflation as measured by the consumer price index (CPI) has averaged an annual growth of 2.8 percent Montana total personal income growth has averaged 5.5 percent.

Figure 21



In Figure 22, the ratio of general fund to federal fund has changed significantly since FY 1990. Where federal funds paid for approximately 39.3 percent of state services in FY 1990, they now support about 50 percent of combined general and federal funds.

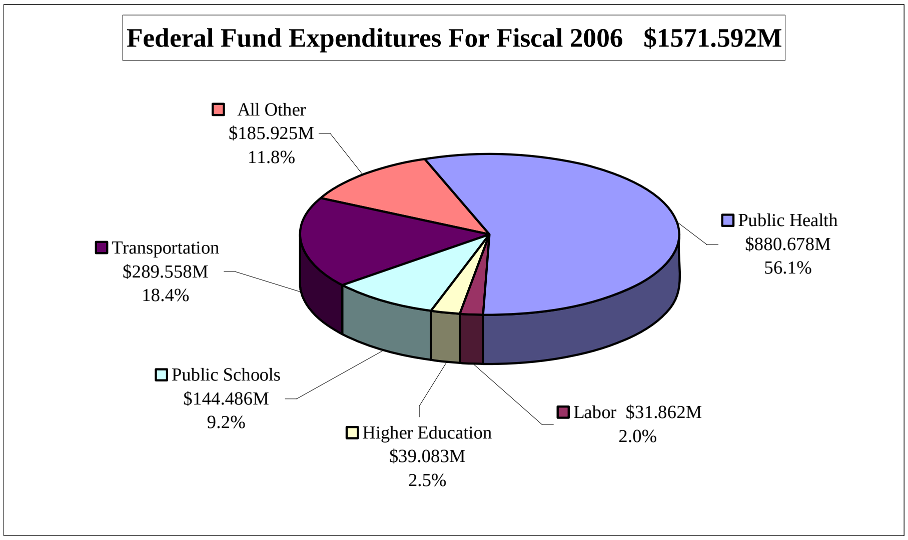
Figure 22



	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General Fund	60.7%	61.5%	60.0%	58.9%	57.3%	57.6%	53.0%	53.2%	52.3%	49.8%	49.6%	50.4%	49.6%	46.2%	44.5%	46.7%	49.9%
Federal Fund	39.3%	38.5%	40.0%	41.1%	42.7%	42.4%	47.0%	46.8%	47.7%	50.2%	50.4%	49.6%	50.4%	53.8%	55.5%	53.3%	50.1%

The largest area of federal support goes to public health programs. In FY 2006, Montana received over $880.7 million in federal aid for public health programs. This corresponds to 56.1 percent of the federal funds received. Transportation received $289.6 million in federal aid or 18.4 percent of all federal funds, and public schools received $144.5 million or another 9.2 percent of the federal funds provided to Montana. Figure 23 presents the entire breakout of federal fund expenditures for FY 2006.

Figure 23



General fund revenues and expenditures and federal funds have all increased since FY 1990. Typically, the increases have surpassed inflation. The state has directed the increased revenues to all budgets, but the greatest increases, in dollar terms, have been expended in the largest budgets, public schools, public health, and higher education. Finally, Montana has grown increasingly dependent on federal funds to support these programs.

GENERAL FUND STATUS SHEET

The general fund status sheet (GFSS) is analogous to your personal checkbook register. Your bank balance fluctuates either up or down as you make deposits and expend monies. Similarly, the general fund status sheet simply measures the state's financial condition as the legislature adjusts revenue flows (adopts taxation policies) and appropriates funds (authorizes expenditures).

The general fund status sheet is prepared during legislative sessions to provide the legislature with a current projection of the financial status of the general fund account. This budgetary status sheet is usually prepared at least once a week and serves as a "work in progress" tool to assist the legislature in balancing the state's general fund budget. Financial information on revenue estimates, taxation legislation, and appropriation measures are the basic components of the general fund status sheet. The status sheet is usually prepared on Fridays and distributed either late Friday night or early Saturday morning.

The starting point for the status sheet is the projected general fund balance *before* any legislative action has been taken. This balance is based on revenue estimates adopted by the Revenue and Transportation Interim Committee (RTIC) on November 15, 2006, agency base budgets for fiscal 2006 as assumed for fiscal 2008 and 2009, LFD estimates for all statutory appropriations, fund balance adjustments, and transfers.

The status sheet also shows any proposed legislation that has a general fund fiscal impact (revenue or disbursement). These bills are posted to the document after any committee takes positive executive action. Subsequent amendments to bills are also incorporated into the document once they have been adopted by a committee. The projected ending balance *after* legislative action to date is provided to show the legislature a "point in time" status of the general fund account.

The status sheet also includes all general fund bills that could change the level of spending for state agencies. These bills, categorized as "potential appropriations," result from legislation that change the duties and functions of state agencies without making a corresponding appropriation adjustment. These adjustments are considered by the House Bill 2 Conference Committee toward the end of the legislative session. These "potential" spending changes are *not* included in the projected ending balance until *after* legislative action has been taken.

The information shown on the next page is the last GFSS used by the 59th Legislature.

LFD staff is available to assist legislators in interpreting the general fund status sheet.

Figure 24

Legislative Fiscal Division
General Fund Status Sheet

2007 Biennium (Figures In Millions)

12/21/2006 08:28 AM 90 th Legislative Day Status #15

Fiscal Condition Without Legislative Action

Beginning Fund Balance (Without Feed Bill & Supplementals)		$214.376	+	
Revenue & Transportation Committee Revenue Estimates		2,898.316	+	
Base Appropriations Using Fiscal 2004 + Statewide Adjustments		(2,290.998)	-	
Estimated Reversions and 2007 Legislative Session		(6.427)	-	
Estimated Statutory Appropriations		(268.691)	-	
Estimated Transfers		(41.231)	-	
Estimated Adjustments & Residual Transfers		(2.085)	-	
Ending Fund Balance Without Legislative Action			=	**$503.260**

Summary of Legislative Action

Revenue Adjustments

HJR 2 Revenue Estimates				+	**34.114**
House Taxation		6.512			
House Floor		0.000			
Senate Taxation		27.602			
Senate Floor		0.000			
Conference	No Action				
Revenue Legislation (See Table 1 For Detailed Bill Listing)				-	**(32.795)**

Appropriation Adjustments

	Present Law	New Proposal		
HB0002 General Appropriations Act			-	**(349.465)**
General Government & Transportation	(10.783)	(33.793)		
Health & Human Services	(100.084)	(25.471)		
Natural Resources & Commerce	(3.503)	(8.328)		
Corrections & Public Safety	(17.956)	(24.755)		
Education	(34.377)	(90.415)		
Totals	($166.703)	($182.762)		
Other Appropriation Legislation (See Table 1 For Detailed Bill Listing)			-	**(79.556)**

Other Adjustments

HB028	Reserve funds for large-scale IT and equipment for Legislature	-	(0.564)
HB414	Statutorily appropriate unexpended juvenile delinquency funds to Supreme Court	+	0.971
	Total Legislative Action	-	**($427.295)**

Fiscal Condition With Legislative Action **$503.260** + **($427.295)** = **$75.965**

The fiscal condition above does not include the Governor's authority to expend $16.5 million out of the general fund account for emergenci

Major Legislation Not Included Above

Figure 25

Legislative Fiscal Division
General Fund Status Sheet

2007 Biennium (Figures In Millions)

12/21/2006 08:28 AM 90 th Legislative Day Status #15

Table 1 - Detail of Legislative Action

	Bill Number	Short Description of Proposed Legislation	Revenue Impact	Appropriation Impact	Potential Impact **	Total Impact
LAW	HB0001	Feed bill	0.000	(6.900)	0.000	(6.900)
LAW	HB0002	General appropriations act	3.035	(1.700)	0.000	1.335
LAW	HB0005	Long-range building appropriations	(0.940)	(30.100)	0.000	(31.040)
LAW	HB0006	Renewable resource grants	0.000	(0.600)	0.000	(0.600)
LAW	HB0009	Cultural and aesthetic grant appropriations	0.000	(3.413)	0.000	(3.413)
LAW	HB0028	Reserve funds for large-scale IT and equipment for Legislature	0.000	0.000	0.000	0.000
LAW	HB0060	Indoor cleanup standards for methamphetamine labs	0.015	0.000	0.000	0.015
LAW	HB0083	Revise school district tuition payments	0.336	(0.336)	0.000	0.000
LAW	HB0089	Revise requirements for automated reporting system for gambling machines	0.000	0.000	(1.100)	(1.100)
LAW	HB0099	Penalty for driving when license suspended or revoked for DUI or test refusal	1.661	0.000	0.000	1.661
LAW	HB0102	Statutory appropriation for highway patrol officers' retirement	0.600	(2.480)	0.000	(1.880)
LAW	HB0110	Identity theft passport for victims of identity theft	0.000	0.000	(0.004)	(0.004)
LAW	HB0113	Require DNA samples from all felons	0.000	0.000	(0.002)	(0.002)
LAW	HB0158	Revise and clarify income tax withholding	(4.750)	0.000	0.000	(4.750)
LAW	HB0169	Revise statutes related to tobacco master settlement agreement	0.000	(0.060)	0.000	(0.060)
LAW	HB0170	Clarify fund transfers for certain vehicle taxes and fees	0.000	(1.495)	0.000	(1.495)
LAW	HB0186	Clarify status of new types of vehicles	0.000	0.000	(0.003)	(0.003)
LAW	HB0192	Revise commercial driver's license, driver's license, and cmv laws	(0.502)	0.000	0.000	(0.502)
LAW	HB0201	Fund natural resource damage litigation	(0.041)	0.000	0.000	(0.041)
LAW	HB0249	Economic development trust fund	(2.919)	0.000	0.000	(2.919)
LAW	HB0271	Workforce training supplemental appropriation	0.000	(2.170)	0.000	(2.170)
LAW	HB0285	Allow domestic violence victims to route mail through secretary of state	0.000	0.000	(0.009)	(0.009)
LAW	HB0316	Revise fees charged by public service commission	(0.013)	0.000	0.000	(0.013)
LAW	HB0326	Change penalty for 2nd & subsequent methamphetamine possession conviction	0.000	0.000	(2.378)	(2.378)
LAW	HB0327	Increase silicosis benefits	0.000	(0.054)	0.000	(0.054)
LAW	HB0332	Supplemental appropriation to fund low-income energy assistance	0.000	(0.903)	0.000	(0.903)
LAW	HB0348	Revise youth access to alcohol and provide for keg registration	0.025	0.000	0.000	0.025
LAW	HB0370	Revise strip and underground mine reclamation act	(0.001)	0.000	0.000	(0.001)
LAW	HB0374	Increase drunk driving penalty when person under 16 was in vehicle	0.170	0.000	0.000	0.170
Gov. Amend	HB0377	Enforce license plate violations by nonresidents working in Montana	0.020	0.000	0.000	0.020
LAW	HB0414	Statutorily appropriate unexpended juvenile delinquency funds to Supreme Court	0.000	(1.085)	0.000	(1.085)
LAW	HB0423	Provide funding for great plains dinosaur park in Malta	0.000	(0.500)	0.000	(0.500)
LAW	HB0438	Braille literacy services for blind or visually impaired children	0.000	(0.440)	0.000	(0.440)
LAW	HB0439	Disallow double credit for foreign income tax payment	0.369	0.000	0.000	0.369
LAW	HB0440	Require locks on anhydrous ammonia storage tanks	0.000	(0.080)	0.000	(0.080)
LAW	HB0447	Increase state employee pay	(0.636)	(1.575)	0.000	(2.211)
LAW	HB0453	Administrative penalties for certain environmental law violations	0.002	0.000	0.000	0.002
LAW	HB0482	Revise allocation of funds to coal tax shared account	(0.390)	0.000	0.000	(0.390)
LAW	HB0484	Mobile meat processor licensing and inspection	0.000	(0.089)	0.000	(0.089)
LAW	HB0514	Increase restitution for illegal taking of grizzly bear	0.009	0.000	0.000	0.009
LAW	HB0522	Study design of state dental program	0.000	(0.010)	0.000	(0.010)
LAW	HB0528	Year round beer and wine license for west Yellowstone airport	0.001	0.000	0.000	0.001
LAW	HB0535	Revise taxation of stripper well production	(0.680)	0.000	0.000	(0.680)
LAW	HB0536	Generally revise court automation surcharge	3.211	0.000	0.659	3.870
LAW	HB0540	Bonding for higher education and other state projects	0.000	(0.626)	0.000	(0.626)
LAW	HB0541	Allow motor homes 11 years old and older to be permanently registered	0.071	0.000	(0.002)	0.069
LAW	HB0550	Fund youth leadership forum for students with disabilities	0.000	(0.100)	0.000	(0.100)
LAW	HB0552	Change asset test for children for medicaid	0.000	0.000	(0.034)	(0.034)
LAW	HB0577	Appropriate money to fund rape kits and examinations	0.000	(0.061)	0.000	(0.061)
LAW	HB0584	Promote growth of film and other media in Montana	(0.739)	0.000	0.000	(0.739)
LAW	HB0592	Standardize penalty and interest calculations for taxes	0.613	0.000	0.000	0.613
LAW	HB0615	Create environmental violations unit in department of justice	0.000	0.000	(0.002)	(0.002)
LAW	HB0643	Eliminate smoking in enclosed public places	(0.432)	0.000	0.000	(0.432)
LAW	HB0667	Purchasing pools, tax credit for health insurance	0.000	0.000	(0.021)	(0.021)
LAW	HB0671	Generally revise motor vehicle law	2.833	0.000	0.000	2.833
LAW	HB0700	Revise allocation and use of metal mines license tax	(0.187)	0.000	0.000	(0.187)
LAW	HB0704	Time requirements for certain DPHHS actions involving long-term care facilities	0.000	0.000	(0.058)	(0.058)
LAW	HB0713	Fund national guard and military mission assessment and promotion	0.000	(0.100)	0.000	(0.100)
LAW	HB0740	Appropriate money for asbestos-disease related programs	0.000	(0.175)	0.000	(0.175)
LAW	HB0742	Create registry for declarations concerning life-sustaining treatment	0.000	(0.080)	0.000	(0.080)
LAW	HB0745	Supplemental appropriations	0.000	(55.680)	0.000	(55.680)

Figure 26

Legislative Fiscal Division

Traditional General Fund Balance Sheet

2007 Biennium (Figures In Millions)

12/21/2006 08:28 AM 90 th Legislative Day Status #15

	Fiscal 2005	Fiscal 2006	Fiscal 2007	2007 Biennium
Beginning Fund Balance	**$132.873**	**$162.438**	**$109.685**	**$162.438**
Revenues				
Anticipated Revenue HJR 2	1,384.639	1,429.143	1,469.173	2,898.316
HJR 2 Adjustments	27.313	0.625	6.176	6.801
Revenue Legislation	(14.356)	(8.873)	(9.561)	(18.434)
Total Available Funds	**$1,530.469**	**$1,583.333**	**$1,575.473**	**$3,049.121**
Disbursements				
HB2 General Appropriations	1,170.361	1,145.768	1,145.230	2,290.998
HB2 Action		165.599	183.867	349.466
Statutory Appropriations	128.660	133.085	135.606	268.691
Non-Budgeted Transfers	17.469	20.917	20.314	41.231
Supplemental Appropriations				0.000
Feed Bill Appropriations		2.100	8.050	10.150
Anticipated Reversions	(6.866)	(2.386)	(3.450)	(5.836)
Disbursement Legislation	60.697	8.487	10.371	18.858
Total Disbursements	**$1,370.321**	**$1,473.570**	**$1,499.988**	**$2,973.558**
Adjustments	2.290	(0.078)	0.485	0.407
Projected Ending Balance	**$162.438**	**$109.685**	**$75.970**	**$75.970**

Structural Balance Condition	**Fiscal 2006**	**Fiscal 2007**	
Anticipated Revenues 2007 Biennium	1,420.895	1,465.788	
Anticipated Disbursements 2007 Biennium	1,473.570	1,499.988	
One-Time Only Disbursements	(45.329)	(36.024)	
Anticipated Structural Balance	**($7.346)**	**$1.824**	**Warning**

Summarization of Changes From Previous Status

General Fund Status Sheet 4/18/2005	**Status #13**	**81.850**	
General Fund Status Sheet 4/19/2005	**Status #14**	**75.965**	
Amount of Change		**($5.885)**	
Revenue Legislation Changes			**($18.429)**
HJ002	Revenue estimate resolution	0.000	
HB002	General appropriations act	0.000	
HB264	Redirect restitution payments to office victim services	0.400	
HB703	Revise method of determining value of railroad systems f	(1.548)	
SB229	Revise carryforward and carryback periods for corporate	(2.500)	
SB509	Graduated minium payment of corporate license tax	(0.650)	
All Other Revenue Legislation		(14.131)	
Appropriation Legislation Changes			**$12.137**
HB002	General appropriations act	(35.968)	
HB002	Language Appropriations	0.000	
HB009	Cultural and aesthetic grant appropriations	0.500	
HB336	Revise developmental disability services	0.287	
HB695	Fund representation for indigent victims of domestic viol	0.150	
All Other Appropriation Legislation		47.168	
Total Changes			**($6.292)**

INDEX TO OTHER LFD BUDGET REFERENCE DOCUMENTS

In addition to the *Legislative Budget Analysis – 2009 Biennium* (Volumes 1 through 7), there are several other reference documents that legislators and other interested parties can use as a source of information concerning budget and other fiscal matters. A limited number of reports of past biennia are available for reference in the LFD office (photo copies of pages of interest can be made). Training publications and brochures are available for distribution and on the LFD website. Check with an LFD staff member for assistance (see staff list near the front of this volume).

TRAINING PUBLICATIONS

Training material prepared by the LFD include the following:

- *Understanding State Finances and the Budgeting Process* (A Reference Manual for Legislators) is a helpful guide for persons wanting more detailed information concerning fiscal matters
- *HB 2 the Barbarian* (How to Make HB 2 Implement Public Policy as Determined by the Legislature) describes the intricacies of developing the general appropriations act

FISCAL POCKET GUIDES

A variety of brochures have been prepared to provide summary information concerning select topics important to legislators and other interested parties.

- Bed Tax
- Beer Tax
- Cigarette Tax
- Coal Severance Tax
- Coal Severance Tax - A Data View
- Coal Severance Tax - A Pictorial View
- Coal Severance Tax - Distribution Detail
- Corporation Income Tax
- Electrical Energy Tax
- General Fund Fiscal 2005
- General Fund Fiscal 2006
- Higher Education Funding
- Individual Income Tax
- Insurance Tax & License Fees
- Insure Montana
- K-12 Education Funding
- Liquor Excise Tax
- Medicaid
- Metalliferous Mines Tax
- Montana Highway Funding
- Oil & Natural Gas Tax
- Pertinent State Statistics
- Property Tax
- Rental Car Sales Tax
- Resource Indemnity Trust
- State Employees Budgeting
- State Financial and Budgeting Structure
- TANF (Temporary Assistance for Needy Families)
- Telecommunications Tax
- Tobacco Settlement
- Tobacco Settlement Financial Summary
- Tobacco Tax
- Video Gambling Tax
- Wholesale Energy Tax
- Wildfire Suppression Funding
- Wine Tax

The LFD would welcome suggestions for other possible topics for pocket guides.

AGENCY PROFILES

The LFD has created a "profile" of each of the agencies of state government for which funding is provided in the general appropriations act. These profiles include summaries of what the agency does, how it does it, how it is funded, who its primary customers are, and how the legislature can effect change. The profiles also contain a history of expenditures and selected pertinent statistics.

PREVIOUS REPORTS

The *Legislative Budget Analysis* is prepared at the beginning of each biennium and the *Legislative Fiscal Report* is published at the end of each session. The latter is a record of legislative actions that resulted from the enactment of House Bill 2 and other appropriation legislation, as well as revenue estimation and discussion of other fiscal issues.

- The *Legislative Budget Analysis* for all biennia beginning with the 1979 biennium is stored in the LFD office and in the State Library
- The *Legislative Fiscal Report* for all biennia beginning with the 1979 biennium is stored in the LFD office and in the State Library. Early versions of this report were titled the *Appropriations Report*

TRUST FUNDS

INTRODUCTION

Montana has a number of constitutional and statutory trusts that provide interest income (over $74 million per year) to fund state government operations. While recent legislatures eliminated the principal of the education trust, slowed the flow of revenue into the coal tax trust, parks acquisition trust, and the common school trust, and capped the growth of the resource indemnity tax trust, substantial balances remain, totaling $1.4 billion at the end of FY 2006. This chapter provides a summary of legislative action regarding trust funds in the last several biennia, and a summary of each trust fund in the categories of constitutional and statutory trusts.

BACKGROUND – RECENT LEGISLATIVE ACTION

1999 LEGISLATURE

The Fifty-sixth Legislature in the 1999 session reduced the rate of growth in many of the trusts by passing legislation that redirected incoming revenues. The Fifty-sixth Legislature passed legislation that reduced the FY 2001 ending fund balance for all trusts combined by an estimated $26 million when compared with pre-session estimates. The reduction in revenue growth was the greatest for the Permanent Coal Tax Trust, the Treasure State Endowment, and the Common School Fund. The legislature substantially enhanced the revenue growth into the noxious weed trust and marginally increased revenue into the Resource Indemnity Trust.

2001 LEGISLATURE

The Fifty-seventh Legislature in the 2001 session enacted several measures impacting state trust funds.

- HB 444 appropriated $990,000 to the Department of Justice for the 2003 biennium as a loan from the coal severance permanent fund. The purpose of the appropriation was to conduct the natural resource damage assessment and litigation, and to pursue Montana's remaining natural resource damage claims, including any appeals, against the Atlantic Richfield Company. This results in a loss of trust interest earning transfers to the general fund.
- HB 610, beginning FY 2004, reduces the amount of total coal severance tax collections deposited in the treasure state endowment fund from 37.5 percent to percent 25.0 percent and increases the amount deposited to the permanent fund from 0 percent to 12.5 percent.
- The passage of SB 495 resulted in the sale of the common school trust's mineral production rights and the diversion of future royalties that would have been deposited in the trust. As a result of the sale, the balance of the common school trust increased by $46.4 million, but the trade-off was a substantial reduction in future growth of the trust. For further information and analysis of SB 495, contact the Legislative Fiscal Division for a copy of the two-part report: "SB 495 – Implementation, Impacts and Implications".

- Because the resource indemnity trust reached the constitutionally protected cap of $100 million in FY 2002, any amount in excess of $100 million becomes available for the legislature to appropriate. In HB 2, the legislature appropriated all of the estimated $1.1 million excess in FY 2003, thus reducing the trust balance.

2003 LEGISLATURE

The Fifty-eighth Legislature in the 2003 session enacted one measure impacting state trust funds. HB 160 appropriated $650,000 to the Department of Justice for the 2005 biennium as a loan from the coal severance permanent fund. The purpose of the appropriation was to conduct the natural resource damage assessment and litigation, and to pursue Montana's remaining natural resource damage claims, including any appeals, against the Atlantic Richfield Company. The resulting loss in transfer of trust interest earnings to the general fund was projected at $21,807 in FY 2004 and $44,135 in FY 2005.

2005 LEGISLATURE

The Fifty-ninth Legislature in the 2005 session enacted several measures that affect state trust funds:

- HB 9 – This transferred $3,912,500 from the general fund to the cultural protection trust fund at the beginning of FY 2006, resulting in a larger balance that generates additional earnings of $200,280 in FY 2006 and $211,097 in FY 2007.
- HB 201 - The Department of Justice has appropriated the unexpended amount from the $650,000 of loan proceeds appropriated by the 2003 legislature for the 2005 biennium from the coal severance tax permanent fund. The unexpended amount is estimated to be $440,000. The purpose of the loan and appropriation is to conduct the natural resource damage assessment and litigation, and to pursue Montana's remaining natural resource damage claims and any appeals against the Atlantic Richfield Company. Because the removal of the money from the trust results in a smaller invested balance, the resulting loss in transfers of trust interest earnings to the general fund is expected to be $13,706 in FY 2006 and $27,324 in FY 2007.
- House Bill 249 – Beginning FY 2006, the 25 percent of remaining coal severance tax revenue (after deposits, if any, in the coal tax bond fund and the school bond contingency loan fund) that previously had been deposited in the coal severance tax permanent fund (12.5% of total revenue), is now deposited in the new Big Sky Economic Development fund within the coal trust. On July 1, 2005, $20.0 million of fund balance in the permanent trust fund was transferred to the Big Sky Economic Development fund. Interest earnings from this new fund are statutorily appropriated to the Department of Commerce for grants and loans to local governments for economic development projects and to certified regional development corporations. Money not spent for administration must be allocated: 1) 75 percent to local governments for job creation efforts; and 2) 25 percent to certified regional development corporations and economic development organizations. The elimination of all deposits to the permanent fund and the one-time $20.0 million reduction in fund balance result in a loss in transfers of trust interest earnings to the general fund of $1,338,000 in FY 2006 and $1,581,000 in FY 2007. State special revenue increases by the same amounts.

MAJOR TRUST FUNDS

OVERVIEW

Figures 1 and 2 show the history of the 11 major trusts since FY 1973. Forecast amounts are shown for FY 2007, 2008 and 2009, and are based on assumptions contained in the revenue estimating resolution (HJ 2). Following is a description of each trust and the income it generates. Also shown are expected interest earnings from each trust in FY 2007, 2008, and 2009.

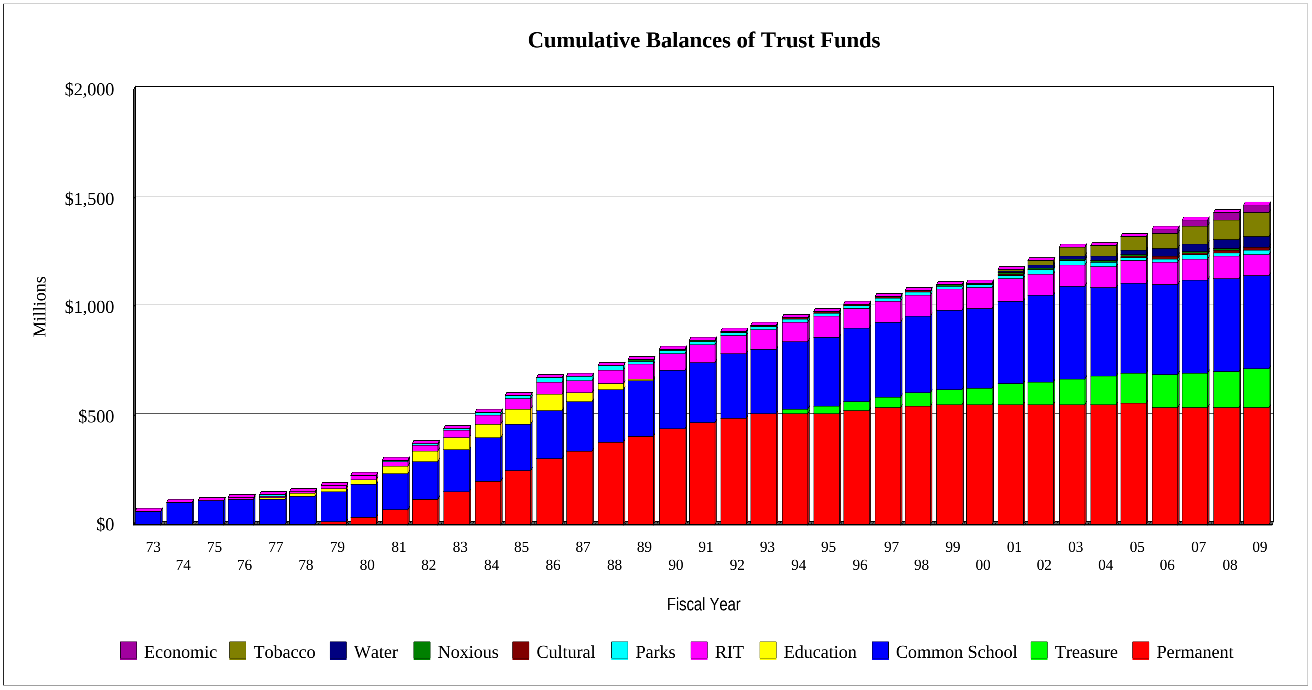
Figure 1

Selected Trust Fund Balances

Including Projected Investment Earnings

	Fiscal Year	Permanent Coal Tax Trust Fund	Treasure St Endowment Trust Fund	Common School Trust Fund	Education Trust Fund	Resource Indemnity Trust Fund	Parks Acquisition Trust Fund	Cultural Protection Trust Fund	Noxious Weed Trust Fund	Regional Water Trust Fund	Tobacco Trust Fund	Economic Development Trust Fund	Total Trust Funds
A	73	0	0	$64,223,773	0	0	0	0	0	0	0	0	$64,223,773
A	74	0	0	108,998,870	0	$1,141,385	0	0	0	0	0	0	110,140,255
A	75	0	0	113,064,188	0	3,287,456	0	0	0	0	0	0	116,351,644
A	76	0	0	117,849,628	$2,227,793	5,552,291	$278,725	0	0	0	0	0	125,908,437
A	77	0	0	123,281,528	6,039,530	8,232,247	758,308	0	0	0	0	0	138,311,613
A	78	$6,268,262	0	129,949,247	8,983,763	10,646,851	1,174,356	0	0	0	0	0	157,022,479
A	79	16,940,538	0	137,716,735	12,339,549	12,574,209	1,475,732	0	0	0	0	0	181,046,763
A	80	39,964,765	0	147,527,943	23,905,146	16,204,531	3,565,371	0	0	0	0	0	231,167,756
A	81	75,187,459	0	163,163,556	33,624,170	21,165,464	5,325,746	0	0	0	0	0	298,466,395
A	82	118,336,314	0	176,467,865	44,338,477	28,328,946	7,480,418	0	0	0	0	0	374,952,020
A	83	158,358,806	0	189,390,417	52,665,410	36,181,889	9,481,542	0	0	0	0	0	446,078,064
A	84	202,936,358	0	201,319,109	60,925,268	42,986,128	11,565,460	0	0	0	0	0	519,732,323
A	85	252,420,524	0	214,764,544	70,500,922	47,396,179	13,859,181	0	0	0	0	0	598,941,350
A	86	309,384,250	0	217,677,906	79,761,708	53,039,675	16,222,131	0	$443,184	0	0	0	676,528,854
A	87	339,883,180	0	227,687,073	44,091,429	56,861,627	16,613,608	0	824,550	0	0	0	685,961,467
A	88	381,180,287	0	239,553,633	33,671,110	61,750,961	16,581,042	0	1,070,972	0	0	0	733,808,005
A	89	411,838,993	0	254,128,428	8,651,477	66,665,000	16,608,706	0	1,320,720	0	0	0	759,213,324
A	90	446,511,416	0	268,496,362	0	72,811,618	17,936,701	0	1,688,370	0	0	0	807,444,467
A	91	470,322,655	0	280,326,496	0	77,324,921	18,882,548	0	2,121,973	0	0	0	848,978,593
A	92	496,465,569	0	291,753,603	0	82,489,898	12,588,366	$7,051,506	2,584,254	0	0	0	892,933,196
A	93	511,474,640	0	300,782,863	0	86,890,369	12,538,119	6,863,579	2,534,844	0	0	0	921,084,414
A	94	511,754,471	$20,520,830	310,735,129	0	89,316,268	12,538,119	7,025,290	2,518,875	0	0	0	954,408,982
A	95	515,470,287	31,793,125	321,265,835	0	91,614,674	12,538,119	7,296,373	2,544,390	0	0	0	982,522,803
A	96	530,144,251	42,262,548	331,630,225	0	93,152,864	12,998,633	7,518,157	2,502,197	0	0	0	1,020,208,875
A	97	538,223,210	52,210,048	347,298,490	0	94,584,643	13,483,000	3,846,000	2,527,953	0	0	0	1,052,173,344
A	98	545,789,038	61,800,580	355,329,490	0	95,582,249	14,005,728	3,852,201	2,537,621	0	0	0	1,078,896,907
A	99	555,204,609	68,334,808	365,188,709	0	94,991,658	14,399,076	3,852,202	2,471,388	0	0	0	1,104,442,450
A	00	553,031,020	81,347,120	359,661,156	0	96,404,163	14,834,592	4,050,384	3,635,000	$3,441,977	0	0	1,116,405,412
A	01	557,477,352	92,182,012	384,741,584	0	100,373,547	15,376,300	4,257,671	4,760,000	7,389,930	$10,819,202	0	1,177,377,598
A	02	555,718,038	105,383,384	394,132,998	0	102,065,653	15,777,802	4,454,360	4,760,000	11,914,241	23,203,088	0	1,217,409,564
A	03	553,406,844	120,337,392	424,415,537	0	100,000,965	15,777,996	4,454,456	5,073,619	16,902,479	35,830,328	0	1,276,199,616
A	04	557,754,322	128,083,371	405,618,690	0	100,002,390	16,289,556	4,653,188	4,864,635	21,078,919	46,788,330	0	1,285,133,401
A	05	562,811,974	138,169,251	414,319,566	0	100,254,844	16,907,531	4,907,330	4,791,222	25,052,688	57,936,845	0	1,325,151,251
A	06	542,783,877	148,003,701	418,539,230	0	100,023,109	17,442,140	8,533,199	4,735,721	30,736,730	68,216,010	24,799,123	1,363,812,840
Fund Balance Forecast													
F	07	542,784,000	157,144,000	425,076,000	0	100,023,000	17,907,000	12,177,000	4,736,000	35,307,000	78,872,000	29,369,000	1,403,395,000
F	08	542,784,000	166,628,000	426,501,000	0	100,023,000	18,386,000	12,415,000	4,736,000	40,049,000	93,349,000	34,111,000	1,438,982,000
F	09	542,784,000	175,273,000	427,926,000	0	100,023,000	18,845,000	12,643,000	4,736,000	44,371,000	108,419,000	38,433,000	1,473,453,000
Investment Earnings Forecast													
A	05	36,751,940	8,481,564	24,991,000	0	6,247,097	1,100,104	318,333	224,600	1,396,302	3,202,336	0	82,713,276
A	06	31,106,170	8,038,515	21,896,000	0	5,915,563	971,827	447,040	257,249	1,527,443	3,387,527	1,193,690	74,741,024
F	07	29,959,000	8,434,000	21,287,000	0	5,645,000	983,000	483,000	257,000	1,823,000	3,939,000	1,455,000	74,265,000
F	08	29,927,000	8,950,000	21,488,000	0	5,646,000	1,009,000	496,000	257,000	2,082,000	4,567,000	1,716,000	76,138,000
F	09	29,945,000	9,489,000	21,604,000	0	5,658,000	1,036,000	510,000	257,000	2,348,000	5,413,000	1,982,000	78,242,000

Figure 2



Various restrictions, either constitutional or statutory, prohibit or restrict the expenditure of all or a portion of trust fund balances. For example, the Montana Constitution prohibits expenditure of money in the resource indemnity tax trust until the balance reaches $100 million. Since the balance of this trust is at this limit, any additional trust balance can be spent. Figure 3 shows the 10 active trust funds, their fiscal 2006 balances, and the restrictions for spending the balances.

Figure 3
Selected Trust Funds
Balances and Restrictions

Type of Restriction/Trust Fund	Fiscal 2006 Balance	Restrictions
Statutory		
Parks Acquisition Trust	$17,442,140	None
Cultural Trust	8,533,199	None
Subtotal	$25,975,339	
Constitutional		
Permanent Coal Severance Tax Trust	$542,783,877	Inviolate, except by 3/4 vote of each house
Common School Trust	418,539,230	Inviolate, guaranteed by state against loss or diversion
Treasure State Endowment Trust	148,003,701	Inviolate except by 3/4 vote of each house
Resource Indemnity Tax Trust	100,023,109	Inviolate, $100 million guaranteed by state against loss or diversion
Tobacco Settlement Trust	68,216,010	Inviolate, except by 2/3 vote of each house
TSE Regional Water System Trust	30,736,730	Inviolate, except by 3/4 vote of each house
Economic Development Trust	24,799,123	Inviolate, except by 3/4 vote of each house
Noxious Weed Management	4,735,721	$10 million inviolate, except by 3/4 vote of each house
Subtotal	$1,337,837,501	
Total	$1,363,812,840	

CONSTITUTIONAL TRUSTS

Permanent Coal Tax Trust

Article IX, Section 5 of the Montana Constitution requires that at least 50 percent of all coal severance tax revenue be deposited in a permanent coal tax trust fund, and that the principal of the trust "shall forever remain inviolate unless appropriated by a vote of three-fourths of the members of each house of the legislature." By statute, interest earned on this trust that is not earmarked for other programs is distributed 100 percent to the general fund. As described below, some of the interest earned on the trust is earmarked for other programs.

The interest earned on the permanent coal tax trust fund is an important general fund revenue source. During the period of FY 1981 through FY 2004, $821.9 million in interest from this trust was deposited in the combined general fund/school equalization account (SEA). In FY 2004, permanent coal tax trust fund interest provided 2.5 percent of total revenue to the general fund.

Initiative 95, approved by voters in 1982, required that 25 percent of the revenue deposited in the permanent coal tax trust after June 30, 1983, be placed in the in-state investment trust fund for investment in the Montana economy "with special emphasis on investments in new or expanding locally owned enterprises." The 1991 legislature: 1) eliminated separate accounting for the in-state investment trust; and 2) instructed the Board of Investments to "endeavor to invest up to 25 percent of the permanent coal tax trust fund" in the Montana economy.

The 1989 and 1991 legislatures gave authority to the Montana Science and Technology Alliance (MSTA) for the use of $12.5 million from the in-state investment fund for investment in new and expanding technology-based Montana businesses and for research and development project loans. The 1993 legislature authorized MSTA to invest an additional $11.0 million from the in-state investment program.

The payback of principal from MSTA loans returns to the trust. Before July 1, 1993, the interest from MSTA loans was distributed in the same manner as other interest earned on the permanent coal tax trust fund. HB 394, enacted by the 1993 legislature, created a special revenue account into which all interest earned from MSTA loans is deposited and from which MSTA expenses will be paid, with the balance returning to the trust.

The 1991 legislature also appropriated $3.3 million from the permanent coal tax trust fund for the Microbusiness Development Act. These funds provided capital to microbusiness development corporations that provide loans and technical assistance to qualified small businesses. Interest earnings and loan repayments were retained by the program to finance administrative costs and future loans.

During the January 1992 special session, the legislature authorized the creation of a school bond contingency loan fund within the permanent coal tax trust fund. The contingency fund provided up to $25.0 million in loan guarantees for school district bonds certified by the Department of Administration as meeting certification standards, but for which subsequent litigation prevents collection of property taxes levied for debt service. School districts are required to repay any guarantee funds used. Interest on the contingency fund is distributed in the same manner as all other interest earned on the permanent coal tax trust fund. The provisions of this legislation expired on January 1, 1993. HB 667, passed during the 1993 legislative session, provides Guaranteed Tax Base (GTB) aid to certain schools with bonds outstanding or bond issues contemplated. The source of funding for GTB aid was the school equalization account (SEA). The contingency fund will continue to exist until calendar 2012 when the bonds will be retired. At the end of FY 2003, all school districts with loans backed by the state had refinanced their debt and the state no longer secures the bonds issued by the Department of Administration. In FY 2003, all reserves in the contingency fund were distributed to the treasure state endowment fund and the treasure state endowment regional water fund.

In the June 1992 election, voters approved a referendum to create the treasure state endowment fund (TSEF) within the permanent coal tax trust fund. The fund received a $10.0 million grant from the trust principal in FY 1994 and will receive half the funds deposited in the trust during FY 1995 through FY 2013. Interest earned on the TSEF is used to finance local infrastructure projects, as prioritized by the Departments of Commerce and Natural Resources and Conservation, and authorized by the legislature.

During the November 1993 special session, the legislature authorized SB 4 that required the cash balance in the coal tax bond fund as of July 1, 1993 be deposited in the permanent coal tax trust fund. The total amount transferred was $31.1 million. SB 4 also changed the distribution mechanism by requiring the 50 percent coal severance tax revenue allocation be deposited in the TSEF and the permanent coal tax trust fund on an equal basis. Prior to SB 4, coal severance tax revenue earned on production taking place beginning July 1, 1993, was to have been deposited in TSEF. In the following fiscal year, one-half of the previous year's inflow was to have been deposited in the permanent coal tax trust fund, and the TSEF was to retain the rest. Without SB 4, the permanent coal tax trust fund would not have received any coal severance tax revenue during FY 1994.

The 1993 legislature passed HB 401, which authorized a loan to the Department of Environmental Quality (DEQ) from the permanent coal tax trust fund for technical, litigation, and administrative expenses associated with the natural resource damage litigation suit against the Atlantic Richfield Company in the Clark Fork River Basin. The amount of the loan was $2.6 million for the 1995 biennium and $5.2 million to repay principal and interest to the general fund for litigation costs incurred in the 1993 biennium. As of December 1994, $6.3 million had been withdrawn from the permanent coal tax trust to pay for litigation expenses. Since then, the case has been settled and money returned to the permanent trust (see the write-up of HB 110 enacted by the 1997 legislature).

1995 Legislative Action

HB 305 authorized a loan to the Department of Justice from the permanent coal tax trust for the purpose of conducting the litigation and natural resource claims against the Atlantic Richfield Company in the Clark Fork River Basin. The amount of the loan was $2.4 million for the 1997 biennium. The bill also extended loans made for the same purpose during the 1995 biennium.

HB 354 expanded appropriations for the Microbusiness Financing Act, which provides loans to businesses employing less than ten employees and generating less than $500,000 in gross revenue annually. The expansion of this program doubled the previous appropriation to $3.25 million of investable coal tax trust funds made available to the Microbusiness Finance Program in the Department of Commerce. Beginning July 1, 1995, HB 354 also increased maximum loan amounts per individual loan from $20,000 to $35,000. The program provides financing for working capital assets and fixed asset acquisition, with more flexible repayment terms than those offered by commercial institutions. Payback of interest and principal of the loan amounts are used for administrative purposes and for financing new microbusiness loans.

SB 38 authorized the Job Investment Act under which the Department of Commerce may loan a portion of the permanent coal tax trust to businesses to create and retain jobs in Montana. A loan to a qualified business may not exceed $500,000, and the department is to report annually to the Revenue and Taxation Committee. The legislation also reduced the amount of permanent coal tax trust funds that the Board of Investments allows the Montana Board of Science and Technology Development to invest in seed capital loans and mezzanine loans from $15.5 million to $12.5 million. The bill also increased the amount of permanent coal tax trust funds available for research and development projects from $8.1 million to $11.1 million. In the past, these funds were used primarily as loans to the University System. Under SB 38, these funds were granted to the University System for research and development projects.

SB 83 abolished the distribution of coal trust interest to the SEA. Under previous law, 15 percent of coal trust interest earnings were deposited in the SEA and 85 percent in the general fund. As a result of SB 83, 100 percent of coal trust interest earnings are deposited in the general fund in FY 1996 and beyond.

1997 Legislative Action

HB 110 appropriated $2.5 million to the Department of Justice in state special revenue to be used for continuing litigation expenses associated with the Atlantic Richfield case. The appropriation was for expenses incurred during the 1999 biennium, and, upon settlement of the case, the amount used plus interest was to be returned to the general fund. The case was settled in June of 1998 for $215 million. On June 24, 1998, $15 million was deposited into Short-Term Investment Pool (STIP) for payment to the permanent trust and the general fund. In the middle of October 1998, $12.2 million was transferred to the permanent trust, including $9.8 million in principal and $2.4 million in interest. In the middle of November 1998, $1.9 million was transferred to the general fund. This transfer consisted of principal ($1.4 million) and interest ($0.5 million), and constituted repayment of general fund loans going back to FY 1983 when the case began.

The legislature amended the allocation of coal severance taxes under 15-35-108, MCA. In HB 14, the 1997 legislature authorized the issuance of general obligation bonds to fund the purchase of Virginia City and Nevada City properties. In HB 5, the legislature allocated 1.3 percent of coal severance tax revenue to pay the debt service on the bonds, which have a term of ten years. Coal tax revenue will be distributed to the Long-Range Building Program (LRBP) debt service account for FY 1998 through 2007. This allocation diverts coal severance tax revenue that would otherwise be deposited in the general fund. Based on revenue estimates in HJR 2, this change in allocation resulted in a loss to the general fund of $0.5 million in FY 1998 and 1999. Once the ten-year period has expired, the 1.3 percent allocation will revert to the general fund.

HB 5 also eliminated the 0.63 percent distribution of coal severance tax to the cultural and aesthetic (C&A) trust during the 1999 biennium only. The legislature appropriated $3.9 million from the cultural trust for the immediate purchase of Virginia City and Nevada City. This appropriation resulted in a loss of trust interest revenue that otherwise would have been used to fund C&A projects during the 1999 biennium. In order to compensate for the lost interest, the legislature allocated 0.87 percent of coal severance tax revenue to the C&A projects account and eliminated the 0.63 percent of coal severance tax revenue that had been deposited in the cultural trust. The remaining 0.24 percent of coal taxes allocated to the C&A project account was previously part of the flow into the general fund. Based on revenue estimates in HJR 2, this part of HB 5 resulted in a loss to the general fund of $91,736 and $93,195 for FY 1998 and 1999, respectively. After the 1999 biennium, similar amounts of coal severance tax revenue were diverted from the C&A projects account and again flowed to the general fund.

HB 578 abolished the Montana Board of Science and Technology beginning July 1, 1999. The amount of money committed for research and development ($11.1 million) and for seed capital loans ($12.5 million) was disbursed until July 1, 1999. Any money under these caps that had not been committed, except for $915,000, was returned to the coal tax trust. The board continued to provide seed capital loans of up to $700,000 to existing seed capital companies until July 1, 1999 or until an amount of $915,000 was reached. However, up to $75,000 could have been used for administrative expenses. Beginning April 1, 1997, the proceeds from seed capital loans must be deposited in the coal tax trust. However, during FY 1998, $250,000 of seed capital income, as well as $150,000 of job investment loan income, was used to fund the judges' retirement system. Also beginning April 1, 1997, and ending July 1, 1999, up to $2.0 million in income and interest from research and development loans at Montana public universities was authorized to be granted to research and development (R&D) projects at the universities. After July 1, 1999, all repayment proceeds from both seed capital loans and R&D loans in excess of $4.4 million must be deposited in the coal severance tax permanent fund.

1999 Legislative Action

Beginning July 1, 1999, HB 260 imposed a new coal license tax on the contract sales price of coal and reduced the coal severance tax liability for coal producers by allowing a credit against the coal severance tax in the amount of 101.5 percent of the coal license tax liability. Thus, coal producers would realize a reduction of 1.5 percent in the tax liability on coal production. The total reduction in coal severance tax collections was estimated at $20.7 million in FY 2000 and $19.6 million in FY 2001. The new coal license tax was estimated to generate $20.4 million in FY 2000 and $19.3 million in FY 2001. The legislation, in combination with HB 69 and SB 220, provided a new distribution of coal severance taxes and specified a distribution for the new coal license tax. Under the new distribution, none of the coal severance revenue would have been distributed to the permanent trust. Instead, 37.5 percent of the reduced coal severance tax revenue stream would have been deposited in the treasure state endowment trust fund, and 12.5 percent would have been deposited in a new TSEF regional water system account (SB220). The remaining distribution of the coal severance tax would be deposited as under previous law, except that the amount (1.3 percent) to long range building program debt service would have been directly deposited in the general fund as per HB 69. Coal severance tax revenue deposited in the permanent fund would be reduced by $8.3 million in FY 2000 and by $7.9 million in FY 2001. None of the new coal license tax would have been allocated to the permanent fund. Coal severance tax revenue deposited in the TSEF would have been reduced by $3.6 million in FY 2000 and $3.4 million in FY 2001. The revenue diversions in each trust, as well as some of the revenue from the new coal license tax, would have been deposited into spendable accounts used for on-going projects and payments associated with infrastructure loans and grants, agricultural seed capital, and research and commercialization loans and grants.

However, on January 20, 2000, the Montana Supreme Court found that HB 260 violated Article IX, Section 5, of the Montana Constitution and enjoined enforcement of the new coal producer's license tax. This rendered most of the legislation and appropriations meaningless. The decision did not affect the establishment of the research and commercialization expendable trust. Coordination with SB 220 also was not affected, allowing the establishment of the treasure state endowment regional water system trust and the distribution of coal severance tax to the trust, and the TSEF remain intact.

HB 69 eliminated the distribution of coal severance tax revenue to the long range building debt service account that was used to pay bonds issued for the purchase of Virginia City and Nevada City properties. Beginning July 1, 1999, the revenue is deposited in the general fund and the bond service payments are made by the general fund.

Beginning July 1, 1999, SB 220 created a new treasure state endowment regional water system fund into which is deposited 25 percent of one-half of all coal severance receipts. The other 75 percent of one-half of coal severance receipts flows into TSEF.

2001 Legislative Action

The Fifty-seventh Legislature in the 2001 session enacted HB 444 that appropriated $990,000 for the 2003 biennium to the Department of Justice as a loan from the coal severance permanent fund. The purpose of the appropriation is to conduct the natural resource damage assessment and litigation, and to pursue Montana's remaining natural resource damage claims, and any appeals against the Atlantic Richfield Company. The resulting loss in transfers of trust interest earnings to the general fund was an estimated $17,573 in FY 2002 and $52,718 in FY 2003. Any reimbursements received had to be deposited in the coal severance tax permanent fund. The legislation required a three-quarters vote of each house of the legislature.

Beginning FY 2004, HB 610 reduced the amount of total coal severance tax collections deposited in the treasure state endowment fund from 37.5 percent to percent 25.0 percent, and increased the amount of total collections deposited to the permanent fund from 0 percent to 12.5 percent. These changes resulted in greater interest earnings for the general fund and lower interest earnings for Treasure State Endowment Program beginning FY 2004.

In conjunction with HB 41, SB 495 changes the portion of school funding provided by the common school trust. The main points of the legislation are:

- Interest and income from the common school trust are deposited to a subfund of the general fund called the guarantee account
- The Department of Natural Resources and Conservation was authorized to purchase the mineral production rights from the common school trust
- A loan of up to $75 million from the coal severance trust permanent fund was authorized to purchase the mineral production rights and deposited in the common school trust (the actual transaction was $46.4 million)
- Any mineral royalties from the purchased rights are deposited to the guarantee account
- After principal and interest payments on the loan used to purchase the mineral production rights are paid, the remaining money in the guarantee account is available for distribution to school districts
- Upon electorate approval of a constitutional amendment (contained in SB 493), the public school trust may be invested in private corporate capital stock (the electorate did not approve this measure)

Although it was estimated that the cost of the mineral production rights would be $37.4 million, the actual amount loaned from the coal severance permanent fund was $46.4 million. It is estimated that the loss of interest earnings that would have been deposited to the general fund is $3.2 million in each year of the 2005 biennium. The legislation required a three-quarters vote of each house of the legislature.

Coal tax revenue flowing into the permanent coal tax trust fund is also used to secure state bonds issued to finance water resource development projects and activities.

Coal tax revenue is first deposited into the school bond contingency loan fund within the permanent coal tax trust fund. The contingency fund provides up to $25.0 million in loan guarantees for school district bonds certified by the Department of Administration as meeting certification standards, but for which subsequent litigation prevents collection of property taxes levied for debt service. The contingency fund has provided backing for $24.6 million in school bonds for 16 schools. The average balance in the contingency fund has been slightly more than $2.0 million. At the end of FY 2003, all schools districts with loans backed by the state had refinance their debt and the state no longer secures the bonds issued by the Department of Administration. In FY 2003, all reserves in the contingency fund were distributed to the treasure state endowment fund and the treasure state endowment regional water fund.

In the August 2002 special legislative session, the legislature passed HB 4 and HB 7. Combined, these bills changed the guarantee account from a subfund in the general fund to a state special revenue fund and statutorily appropriated the money for schools.

2003 Legislative Action

HB 160 appropriated $650,000 to the Department of Justice for the 2005 biennium as a loan from the coal severance permanent fund. The purpose of the appropriation was to conduct the natural resource damage assessment and litigation and to pursue Montana's remaining natural resource damage claims, including any appeals, against the Atlantic Richfield Company. The resulting loss in transfers of trust interest earnings to the general fund was projected at $21,807 in FY 2004 and $44,135 in FY 2005. Any reimbursements received must be deposited in the coal severance tax permanent fund. The legislation required a three-quarters vote of each house of the legislature.

2005 Legislative Action

HB 201 appropriated the unexpended amount of the $650,000 loan proceeds (estimated to be $440,000) from the coal severance tax permanent fund appropriated by the 2003 legislature to the Department of Justice. The purpose of the loan and appropriation is to conduct the natural resource damage assessment and litigation and to pursue Montana's remaining natural resource damage claims and any appeals against the Atlantic Richfield Company. Because the removal of the money from the trust results in a smaller invested balance, the resulting loss in transfers of trust interest earnings to the general fund was expected to be $13,706 in FY 2006 and $27,324 in FY 2007.

House Bill 249 – Beginning FY 2006, the 25 percent of remaining coal severance tax revenue (after deposits, if any, in the coal tax bond fund and the school bond contingency loan fund) that previously had been deposited in the coal severance tax permanent fund (12.5% of total revenue), is deposited in the new Big Sky Economic Development fund within the coal trust. On July 1, 2005, $20.0 million of fund balance in the permanent trust fund was transferred to the Big Sky Economic Development fund. Interest earnings from this new fund are statutorily appropriated to the Department of Commerce for grants and loans to local governments for economic development projects and to certified regional development corporations. Money not spent for administration must be used: 1) 75 percent to local governments for job creation efforts; and 2) 25 percent to certified regional development corporations and economic development organizations. The elimination of all deposits to the permanent fund and the one-time $20.0 million reduction in fund balance result in an expected loss in transfers of trust interest earnings to the general fund of $1,338,000 in FY 2006 and $1,581,000 in FY 2007. State special revenue increases by the same amounts.

Common School Trust

Article X, Sections 2 and 3 of the Montana Constitution require that all royalties and other proceeds received from school lands granted to the state under the federal enabling act must be deposited in the common school trust fund and "shall forever remain inviolate, guaranteed by the state against loss or diversion." Article X, Section 5 requires that 95 percent of the interest from this trust be used for school equalization, with the remaining 5 percent reinvested in the trust. In addition, 95 percent of all rents, royalties, and other income received from leasing of school lands is to be used for public schools with the remaining 5 percent invested in the trust.

During the January 1992 special session, the legislature passed HB 3, which provided that 95 percent of the revenue from state timber sales (approximately $4.9 million) be deposited in the SEA during the 1993 biennium, with the remaining 5 percent deposited in the trust.

The 1993 legislature passed HB 652, which continued the practice of diverting 95 percent of timber revenue to the SEA during the 1995 biennium. The loss in revenue to the common school trust during the 1995 biennium was approximately $9.1 million. HB 667, also passed during the 1993 legislative session, continued this practice indefinitely. The loss of revenue to the common school trust during the 1997 biennium was approximately $9.7 million.

1995 Legislative Action

HB 50 made permanent certain provisions regarding the sale of timber on state lands. HB 50 was expected to result in additional sales of timber during the 1997 biennium. However, additional costs associated with the sale of timber were also expected to be incurred. These costs were deducted from timber sale revenues.

HB 201, passed by the 1995 legislature, required the state to increase timber sales from state lands consistent with an annual sustainable yield of 45 million board feet to 55 million board feet, contingent on a study to determine the appropriate level of annual sustainable yield. HB 201 capped the amount of timber sale revenue deposited in the general fund (formerly the school equalization account, which was abolished in SB 83) from the common school trust at an average annual sale value of 18 million board feet. Any excess timber sale revenue from the common school trust was to be deposited in the general fund, but "earmarked" for deposit in the school districts' newly established technology acquisition fund, to buy technological equipment and provide technical training for school district personnel.

HB 201 also affected timber sale revenue because it diverted timber sale revenue before it was deposited in the general fund to pay for costs associated with increasing timber sales. The total revenue effect was estimated to be a loss of $1.1 million to the general fund during the 1997 biennium.

HB 274, passed by the 1995 legislature, granted the Department of State Lands broader discretion to expedite sales of state timber in emergency situations and limited access situations. Effective in FY 1996, as a result of the natural resources reorganization bill (SB 234), the forestry function was transferred from the Department of State Lands to the Department of Natural Resources and Conservation.

SB 83 de-earmarked all interest from the common school trust and income earned on common school lands. Henceforth, these revenues flow into the general fund.

1997 Legislative Action

The 1997 legislature passed legislation that impacted the flow of timber revenue into the common school trust by appropriating timber revenue for use by the DNRC to enhance timber sales during the 1999 biennium. The amounts appropriated, $1.2 million and $1.3 million in respective years of the biennium, were diverted from the revenue stream before the allocation of 5 percent of revenue to the trust.

HB 2 appropriated anticipated timber sale revenue in excess of that associated with 18 million board feet for deposition in schools' technology acquisition funds. The purpose of the fund is to allow each district to buy technological equipment and provide technical training for school district personnel. The amounts appropriated were $1.5 million in FY 1998 and $2.8 million in FY 1999, or the amount of "excess" revenue in each year, whichever is less.

1999 Legislative Action

SB 48 made significant changes in funding the Trust Land Management Division in the Department of Natural Resources and Conservation. The legislation diverted a portion of the following money (previously deposited into the corpus of the land trust funds) from certain land trusts administered by the department: 1) mineral royalties; 2) the proceeds or income from the sale of easements and timber (except timber from public school lands); and 3) 5 percent of the interest and income previously credited annually to the public school fund. The money was diverted to a state special revenue account to pay costs of administering state trust lands. The legislation provided limitations on the amount of diverted revenue and the amount of the appropriations: 1) the diverted revenue was limited to 1-1/8 percent of the book value balance in each of the nine nonexpendable trust funds on the first day of January preceding the new biennium and 10 percent of the previous fiscal year revenue deposited into the capitol building land grant trust fund; and 2) appropriations of the money were limited to 1-1/8 percent of the book value balance in the nine nonexpendable trust funds on the first day of January preceding the new biennium and 10 percent of the revenue deposited in the capitol building land grant trust fund in the last completed fiscal year prior to the new biennium. In HB 2, the legislature replaced $7.1 million of general fund appropriations with state special revenue provided by this legislation. Therefore, deposits to land trusts (primarily the Common School Trust) were reduced by $7.1 million over the biennium, approximately $3.5 million per year.

2001 Legislative Action

Although SB 495 potentially could have increased the balance of the common school trust by $75 million due to the sale of its mineral production rights, the increase depended on the amount of rights purchased by DNRC and the sale price. The actual purchase price of the mineral production rights was $46.4 million and this amount was deposited to the trust. Since future royalties from any sold mineral production rights are no longer deposited in the common school trust, the future growth of the trust is substantially curtailed by an estimated $95 million over 30 years. For further information and analysis of SB 495, contact the Legislative Fiscal Division for a copy of the two-part report: "SB 495 – Implementation, Impacts and Implications".

2005 Legislative Action

Under existing law, a portion of income from the sale of common school trust timber is diverted for use by the Department of Natural Resources and Conservation for administrative purposes and a portion is for use by the Office of Public Instruction for school technology. Five percent of the remainder is deposited in the school trust. If the legislature appropriates more of this income for administrative purposes, the amount deposited to the school trust is reduced. HB 447 (the state employee's pay plan) appropriated money from this source for increases in pay and benefits, thus reducing the amount deposited to the trust by an estimated $2,454 in FY 2006 and $6,424 in FY 2007.

Resource Indemnity Trust

Article IX, Section 2 of the Montana Constitution and Title 35, Chapter 38, MCA, require that certain resource extraction taxes be placed in a trust. The principal of the resource indemnity trust "shall forever remain inviolate in an amount of one hundred million dollars ($100,000,000), guaranteed by the state against loss or diversion." Once the principal of the trust reaches $100 million, any additional tax revenue may be appropriated.

During the July 1992 special session, the legislature imposed a one-year surtax on resource indemnity tax liabilities and allocated collections from the surtax to the general fund. During the 1993 legislative session, the legislature passed HB 608 that decreased the amount of resource indemnity and groundwater assessment (RIGWA) tax proceeds deposited in the trust during the 1995 biennium from 85.9 percent per year to 55.9 percent, or approximately $5.0 million. The bill further reduced the amount of RIGWA tax revenue deposited in the trust to 45.9 percent beginning July 1, 1995. During the 1995 session, the legislature replaced a portion of RIGWA tax proceeds with oil and gas tax proceeds due to a bill to simplify oil and gas taxes (SB 412). Also, the legislature diverted for other purposes the metal mines license tax proceeds that previously were deposited to the trust.

1997 Legislative Action

SB 377 reduced the growth rate in the ending fund balance of the RIT trust by diverting $200,000 per year from RIGWA tax inflows and 8.5 percent from metalliferous mines license tax revenue to a newly created orphan share account. The reduction of inflow into the trust in each year of the biennium as a result of these diversions was $674,000 and $743,000. The orphan share account is used to: 1) fund remedial actions on the portion of hazardous waste sites for which there is no responsible party; and 2) pay for DEQ transaction costs associated with defending the orphan share proportions.

1999 Legislative Action

SB 49 and SB 492 increased the allocation of the RIGWA tax and the RIT share of the oil and gas production tax to the RIT. The ending fund balance at the end of the 2001 biennium was estimated to increase by $162,000 as a result of the legislation. The legislation also eliminated the allocation of RIGWA tax revenue to the RIT beginning July 1 of the first year following the date that the governor by executive order certified to the secretary of state that the RIT balance has reached $100 million.

2001 Legislative Action

The RIT balance reached the $100 million amount in FY 2002 and the balance was certified by the governor. Therefore, no additional revenue is deposited in the trust beginning FY 2003. The revenue estimates showed that there would be an estimated $101.1 million in the trust balance by the end of FY 2003. Since any additional tax deposits over the $100 million may be appropriated by the legislature, the 2001 legislature enacted the following legislation that uses all of the excess revenue: 1) SB 326 authorized the transfer of $500,000 to the noxious weed state special revenue account for distribution to counties (the money is appropriated in HB 2); 2) HB 2 transferred and appropriated $540,000 to purchase securities for water treatment at the former Zortman and Landusky mines; and 3) HB 2 transferred and appropriated $120,000 for the Clark Fork River task force (established in HB 397).

Tobacco Settlement Trust

Montana receives revenue as a settling party to master settlement agreement with four original tobacco companies (subsequently, this became three) and 46 subsequent companies that ended a four-year legal battle that included 46 states, and six other entities. Montana is eligible for four types of payments: 1) reimbursement for legal costs (received December 1999); 2) five initial payments (two in FY 2000 with an additional one per year in FY 2001, 2002, and 2003); 3) on-going, perpetual annual payments; and 4) strategic contribution payments (from FY 2008 through 2017). The master settlement agreement places no restrictions on how states are to spend the money.

The total amount of tobacco settlement funds available to Montana may be affected by a number of adjustments. The three most important are the adjustments for inflation, volume of cigarettes shipped nationally, and loss of market share for participating manufacturers. The amount of Montana's annual share will increase by a minimum amount of 3 percent or more if inflation is greater than 3 percent. The amount will decrease if the number of cigarettes shipped nationally decreases and will increase if the number increases. If it is verified that participating manufacturers have lost market shares due to disadvantages caused by the settlement and Montana has failed to enforce its "qualifying statutes", distributions will decrease.

2000 Constitutional Amendment

Due to passage of Montana Constitutional Amendment 35 in November 2000, the legislature is required to dedicate not less than 40 percent of the tobacco settlement money to a permanent trust fund. The remainder of the money is deposited into the general fund. Since the legislature did not pass legislation establishing the exact percentage to be deposited to the trust fund, the revenue estimate assumes 40 percent. Interest earnings from the trust fund are to be distributed: 1) 90 percent for appropriation by the legislature for tobacco related disease prevention programs and state programs providing benefits, services, or coverage that are related to the health care needs of the people of Montana; and 2) 10 percent to the trust. Money in the trust fund can be spent if approved by two-thirds of each house of the legislature. Appropriations of principal, income, or interest from the trust fund cannot be used to replace state or federal money used to fund tobacco disease prevention programs that existed on December 31, 1999.

2001 Legislative Action

The 2001 legislature enacted SB 129 that established a Montana tobacco settlement non-expendable trust fund to implement Article XII, Section 4, of the Montana Constitution. The legislation also provided criteria to govern the purposes for which the interest, income, and principal of the trust may be appropriated. It did not establish a statutory percentage of the tobacco settlement dedicated for deposit in the trust fund.

2002 Initiative

Due to passage of Initiative 146 by the electorate in November 2002, beginning in FY 2004, 32 percent of the total tobacco settlement money funds tobacco prevention programs and 17 percent funds the Children's Health Insurance Program. The remaining 11 percent of the total settlement money is deposited to the general fund.

2003 Legislative Action

The 2003 legislature enacted SB 485 that changed Initiative 146 by increasing the programs that can be funded by tobacco settlement money, but only through FY 2005. With the changes, the 32 percent allocation can be used for human services programs and the 17 percent allocation can be used to match federal Medicaid money. The legislation also transferred $5,831,360 in FY 2004 and $6,057,600 in FY 2005 from the account receiving the 32 percent allocation to a newly created prevention and stabilization state special revenue account. Money in this account is used by the Department of Public Health and Human Services to finance, administer, and provide health and human services.

Noxious Weed Management Trust

During the period FY 1986 through 1992, at least one-half of the collections from a 1 percent surcharge on the retail sale of herbicides were deposited in the noxious weed management trust fund. The remaining collections were spent for weed control grants. The interest earned on the trust is retained in the trust. After the principal of the trust reached $2.5 million in FY 1992, all herbicide surcharge collections and the interest earned on the trust became available for weed control grants.

1995 Legislative Action

SB 321, passed by the 1995 Legislature, increased the amount of the gasoline tax revenue allocated to the snowmobile account from 23/64 of one percent to 15/28 of one percent. Beginning in FY 1996, one percent of the amount deposited in the snowmobile account is deposited in the Montana noxious weed control trust administered by the Department of Agriculture.

1999 Legislative Action

For the 2001 biennium, SB 164 transferred $1.1 million per year to the noxious weed trust from the highway non-restricted account in 15-70-125, MCA. As a result, the ending fund balance in the trust will almost double by June 30, 2002.

2001 Legislative Action

The August 2002 special legislative session reduced the transfer to the noxious weed state special revenue account for counties to $300,000.

2004 Constitutional Amendment

The electorate in the November 2004 election approved an amendment to the Montana Constitution (C-40) creating a noxious weed management trust fund. Ten million dollars of the principal of the fund is to remain forever inviolate unless appropriated by three-fourths of each house of the legislature. Appropriations of the principal over $10 million and the interest and income can only be used to fund the noxious weed management program, as provided by law.

2005 Legislative Action

The 2005 legislature enacted HB 266 to codify statutory changes needed to implement the constitutional amendment passed in 2004.

STATUTORY TRUSTS

Education Trust

From FY 1976 through FY 1986, a portion of the revenue from the coal severance tax was allocated to an education trust for the support of education. The legislature appropriated the corpus of this trust to the school equalization account during the period of FY 1987 through FY 1990. Since FY 1990, the education trust has not received revenue from any source and its balance is zero.

Parks Acquisition Trust/Cultural Protection Trust

During most of the years since 1979, a portion of the coal severance tax has been earmarked for the parks acquisition trust. During the late 1980s, the flow of revenue into this account was diverted to the general fund. However, the principal began to increase again in FY 1990. Prior to FY 1992, two-thirds of the interest from this trust was statutorily allocated for acquisition and operation of state parks, and one-third was allocated for protection of works of art in the state capitol, and other cultural and aesthetics projects.

The 1991 legislature split the principal of this trust into two separate trusts, a parks acquisition trust and an arts protection trust. During the 1993 biennium, the coal tax revenue that would have flowed into the parks acquisition trust (1.267 percent) was spent for maintenance of parks and historic sites, along with the interest from the trust. HB 687, passed during the 1993 legislative session, continued this practice for the 1995 biennium, allocating $1.6 million from the trust to current operations. In the 1997 biennium, the coal tax revenue allocation was again deposited in the trust. SB 27, passed by the 1995 legislature, increased the allocation to the parks acquisition trust from 1.267 percent to 1.270 percent.

In FY 1992, 0.633 percent of coal severance tax revenues were deposited in the arts protection trust, with the trust interest continuing to be used for protection of works of art and for cultural and aesthetics projects. During the January 1992 special session, the legislature diverted a portion of the revenue that would have flowed into the arts protection trust in FY 1993 to fund the operations of the Montana Arts Council. Beginning in FY 1994, these revenues were again deposited in the trust. SB 27, passed by the 1995 legislature, decreased the allocation to the arts trust from 0.633 percent to 0.63 percent.

1997 Legislative Action

The 1997 legislature amended the allocation of coal severance taxes under 15-35-108, MCA. HB 5 eliminated the 0.63 percent distribution of coal severance tax to the cultural and aesthetic trust during the 1999 biennium only. The legislature appropriated $3.9 million from the cultural trust for the immediate purchase of the Virginia City and Nevada City properties. This appropriation resulted in a loss of trust interest revenue that otherwise would be used to fund C&A projects in the state during the 1999 biennium. In order to compensate for the lost interest, the legislature allocated 0.87 percent of coal severance tax revenue to the C&A projects account, and eliminated the 0.63 percent of coal severance tax revenue that had been deposited in the cultural trust. The remaining 0.24 percent of coal taxes allocated to the C&A project account was previously part of the flow into the general fund. After the 1999 biennium, similar amounts of coal severance tax revenue were diverted from the C&A projects account and again flowed to the general fund.

1999 Legislative Action

HB 260, HB 69, and SB 220 reduced coal severance tax revenue and replaced it with coal license tax revenue. The aim of the legislation was to hold the revenue flow into the arts and parks trusts as under current law. However, the arts and parks trusts lost around $25,000 over the biennium.

The January 20, 2000 decision of the Montana Supreme Court that found HB 260 violated Article IX, Section 5, of the Montana Constitution rendered the above changes meaningless.

2001 Legislative Action

In the August 2002 special legislative session, for FY 2003, the legislature temporarily diverted the parks acquisition trust, 1.27 percent allocation and the cultural trust, 0.63 percent allocation to the general fund. Beginning in FY 2004, the allocations resume.

2005 Legislative Action

HB 9 transferred $3,412,500 from the general fund to the cultural trust. The transfer of funds replaced dollars spent from the trust in the 1997 purchase of Virginia and Nevada Cities. The legislation directed that the transfer take place at the beginning of FY 2006 so that new interest would be earned throughout the entire 2007 biennium. Revenues from the cultural trust increase $200,280 in FY 2006 and $211,097 in FY 2007.

GLOSSARY/INDEX

A number of terms are used extensively in budgeting and appropriations. The most common terms, which are used throughout the budget analysis and in other fiscal materials, are listed and defined below.

Appropriations – An authorization by law for the expenditure of funds or to acquire obligations. Types of appropriations are listed below.

Biennial – A biennial appropriation is an appropriation made in the first year of the biennium, where the appropriated amount can be spent in either year of the biennium.

Budget amendment – See “Budget Amendment” below.

Continuing – An appropriation that continues beyond one biennium.

Language – An appropriation made in the language of the general appropriations act for a non-specific or limited dollar amount. Language appropriations are generally used when an agency knows that it will be receiving federal or state special revenue funds but is uncertain as to the amount.

Line Item – An appropriation made for a specific purpose and which cannot be used for any other purpose. Line item appropriations highlight certain appropriations and ensure that they can be separately tracked on the state accounting system.

One-time – Appropriations for a one-time purpose that are excluded from the base budget in the next biennium.

Restricted – An appropriation designated for a specific purpose or function.

Statutory – Funds appropriated in permanent law rather than a temporary bill. All statutory appropriations references are listed in 17-7-502, MCA.

Temporary - An appropriation authorized by the legislature in the general appropriations act or in a “cat and dog” bill that is valid only for the biennium.

Appropriation Transfers (also see ”Supplemental Appropriation”) – The transfer of funds appropriated for the second year of the biennium to the first if the Governor or other approving authority determines that due to an unforeseen or unanticipated emergency there are insufficient funds in the first year for the operation of an agency.

Approving Authority – The entity designated in law as having the authority to approve certain budgetary changes during the interim. The approving authorities are:

- The Governor or his/her designated representative for executive branch agencies
- The Chief Justice of the Supreme Court or his/her designated representative for the judicial branch agencies
- The Speaker of the House of Representatives for the House;

- o The President of the Senate for the Senate
- o The appropriate standing legislative committees or designated representative for the legislative branch divisions
- o The Board of Regents of Higher Education or their designated representative for the university system

Average Daily Population (ADP) – The population measure used to calculate population in the Montana correctional system. ADP is equivalent to one inmate incarcerated for one year.

Average Number Belonging (ANB) – The enrollment measure used for K-12 BASE aid calculations. ANB is the equivalent of one full-time student enrolled in school for the full school year.

Base – The level of funding authorized by the previous legislature.

Base Budget – The resources needed for the operation of state government that provide for expenses of an on-going and non-extraordinary nature in the current biennium.

Benefits – An expenditure category used to account for the provision of payments or services by the government to individuals who qualify for receipt of those payments or services, such as Medicaid benefits. Personal services benefits for state employees are included in the personal services expenditure category.

Biennial Appropriation – An appropriation that can be expended in either or both years of the biennium.

Biennium – A two-year period. For the state, this period begins July 1 of the odd-numbered years and ends June 30 of the following odd-numbered year.

Budget Amendments – Temporary authority to spend unanticipated non-general fund revenue received after the legislature adjourns. The funds must be used to provide additional services and cannot make a commitment of general fund support for the present or future.

Cat and Dog Appropriations – One-time appropriations made in bills other than the general appropriations act.

Debt Service – The payment on outstanding bonds.

Decision Package – Separate, specific adjustments to the base budget. Decision packages can be either present law adjustments or new proposals.

Earmarked Revenue – Funds from a specific source that can be spent only for designated activities.

Enterprise Funds – A fund used to account for operations financed and operated similar to private business enterprises, where the intent of the legislature is to finance or recover costs, primarily through user charges.

Federal Special Revenue – Accounts deposited in the state treasury from federal sources, to be used for the operation of state government.

Fiduciary Funds – Funds used to account for assets held by the state in a trustee capacity or as an agent for individuals, private organizations, other governments, or other funds.

Fiscal Note - An estimate, prepared by the Office of Budget and Program Planning, of the probable revenues and costs that will be incurred as the result of a bill or joint resolution.

Fiscal Year (FY) aka State Fiscal Year (SFY) – A 12-month accounting period beginning July 1 and ending June 30. Fiscal year 2003 refers to the fiscal year ending June 30, 2003. (Note: The federal fiscal year (FFY) is October 1 through September 30.)

Fixed Costs – Fees (fixed costs) charged to agencies for a variety of services provided by other state agencies (e.g., payroll service fees, rent, warrant writing services, and data network services.).

FTE – Full-Time Equivalent position, or the equivalent of one person working full-time for the entire year. Also used to denote full-time equivalent students in the Montana University System for purposes of calculating state support.

Fund – A fiscal entity with revenues and expenses which are segregated for the purpose of carrying out a specific purpose or activity.

General Fund – Accounts for all governmental financial resources except those that must be accounted for in another fund.

General Fund Reversions – Unspent appropriated funds that are returned to the general fund at the close of the budget period.

Grants – An expenditure category used to account for the payment by a government entity to an individual or other entity who will perform a service.

HB 2 –The General Appropriations Act in which the legislature authorizes the funding for state government for the upcoming biennium. Each session, House Bill 2 is reserved for this purpose.

Indirect Cost – A cost necessary for the functioning of the organization as a whole, but which cannot be directly assigned to a specific division or agency.

Interim – The time between regular legislative sessions.

Internal Service Funds – Funds use to account for the financing of goods and services provided by one department or agency to other departments, agencies, or governmental entities on a cost-reimbursement basis.

IRIS - The Integrated Revenue Information System (IRIS) is an automated system to administer taxes that are the responsibility of the Department of Revenue to collect.

Local Assistance – An expenditure classification primarily used to account for expenditures made for K-12 funding provided by the state to school districts.

MBARS – The Montana Budget Analysis and Reporting System, which provides all state agencies with one computerized system for budget development, maintenance and tracking, and is integrated with the State Accounting, Budget, and Human Resource System (SABHRS).

Mill – The property tax rate based on the valuation of property. A tax rate of one mill produces one dollar of taxes on each $1,000 of assessed property value.

New Proposals – Requests (decision packages) to provide new non-mandated services, to change program services, to eliminate existing services, or to change the source of funds.

Non-budgeted Expenditures – Accounting entries for depreciation, amortization, and other financial transactions that appear as expenditures, but don't actually result in direct dispersal of funds from the state treasury.

Operating Expenses – All operating expenditures that do not meet the personal services and capital outlay classification criteria. These expenditures include, but are not limited to, professional services, supplies, rent, travel, and repair and maintenance.

Other Funds – Capital projects and fiduciary funds.

> *Capital projects fund* – Accounts for financial resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds or trust funds.
>
> *Fiduciary funds* – Trust and agency fund types used to account for assets held by state government in a trustee capacity or as an agency for individuals, private organizations, other governmental entities, or other funds.

Pay Plan – Provision by the legislature of a general adjustment to salaries and/or benefits paid to state employees. Also refers to the pay schedule listing the state salary rate for each classified position according to that position's grade and the market rate.

Personal Services –Expenditures for salaries, benefits, per diem, and other additions, such as overtime.

Personal Services Snapshot – The point in time at which personal services attributes are captured and from which the personal services budget is determined. The executive budget personal services costs are based on a "snapshot" of actual salaries for authorized FTE as they existed in a pre-determined pay period in the base year.

Present Law – The additional level of funding needed under present law to maintain operations and services at the level authorized by the previous legislature.

Present Law Adjustments – Requests (decision packages) for an adjustment in funding sufficient to allow maintenance of operations and services at the level authorized by the previous legislature (e.g., caseload, enrollment changes, and legally mandated workload).

Program – A group of related activities performed by one or more organizational units for the purpose of accomplishing a function for which the government is responsible. Also, a grouping of functions or objectives that provides the basis for legislative review of agency activities for appropriations and accountability purposes.

Proprietary Funds – Enterprise or internal service funds. Statute does not require that most proprietary funds be appropriated.

> *Enterprise funds* – Funds that account for operations financed and operated in a manner similar to private business enterprises, and through which the intent is to provide goods or services to the public.
>
> *Internal service funds*- Funds that account for the financing of goods or services provided by one department or agency to other departments or agencies of state government.

Reporting Levels – Budget units dividing agency and program budgets into smaller units for the purpose of constructing, analyzing, and approving budgets.

SABHRS – The State Accounting, Budget, and Human Resource System that combines the state's accounting, budgeting, personnel, payroll, and asset management systems into one single system.

State Special Revenue – Accounts for money from state and other nonfederal sources that is earmarked for a particular purpose, as well as money from other non-state or nonfederal sources that is restricted by law or by the terms of an agreement.

Supplemental Appropriation – An additional appropriation made by the governing body after the budget year or biennium has started. There are two types of supplemental appropriations that can be used to increase spending authority for a fiscal year: 1) a transaction in an even-numbered year that moves spending authority from the second year of the biennium to the first year; or 2) an appropriation passed and approved by the legislature to provide authority for the odd-numbered fiscal year ending the current biennium.

Vacancy Savings – The difference between what agencies actually spend for personal services and the cost of fully funding all funded positions for the entire year.

ACRONYMS

AES	Agricultural Experiment Station
ADP	Average Daily Population
ANB	Average Number Belonging (K-12 education)
ARM	Administrative Rules of Montana
BASE Aid	Base Amount for School Equity Aid
BPE	Board of Public Education
C&A	Cultural and Aesthetic (Trust)
CC	Community Colleges
CES	Cooperative Extension Service
CHE	Commissioner of Higher Education
CHIP	Children's Health Insurance Program (also SCHIP)
CIO	Chief Information Officer
COPP	Commissioner of Political Practices
COT	College of Technology, followed by campus designation
CPI	Consumer Price Index
DEQ	Department of Environmental Quality
DMA	Department of Military Affairs
DNRC	Department of Natural Resources and Conservation
DOA	Department of Administration
DOA	Department of Agriculture
DOC	Department of Commerce
DOC	Department of Corrections
DOJ	Department of Justice
DOLI	Department of Labor and Industry
DOR	Department of Revenue
DP	Decision Package
DPHHS	Department of Public Health and Human Services
FCES	Forestry and Conservation Experiment Station
FMAP	Federal Medical Assistance Participation rate (Medicaid)
FSR	Federal Special Revenue
FSTS	Fire Services Training School
FTE	Full-Time Equivalent
FWP	Department of Fish, Wildlife, and Parks
FFY	Federal Fiscal Year
FY	Fiscal Year
FYE	Fiscal Year End
GAAP	Generally Accepted Accounting Principles
GF	General Fund
GSL	Guaranteed Student Loan
GTB	Guaranteed Tax Base
HAC	House Appropriations Committee
HSRA	Highways Special Revenue Account
I&I	Interest and Income
IRIS	Integrated Revenue Information System
IT	Information Technology
ITSD	Information Technology Services Division
LAD	Legislative Audit Division
LEPO	Legislative Environmental Policy Office
LFA	Legislative Fiscal Analyst
LFC	Legislative Finance Committee
LFD	Legislative Fiscal Division
LRBP	Long Range Building Program
LRP	Long Range Planning
LSD	Legislative Services Division
MAC	Montana Arts Council
MBARS	Montana Budgeting, Analysis, and Reporting System
MBCC	Montana Board of Crime Control
MBMG	Montana Bureau of Mines and Geology
MCA	Montana Code Annotated
MCHA	Montana Comprehensive Health Association
MDT	Montana Department of Transportation
MHP	Montana Highway Patrol
MHS	Montana Historical Society
MSDB	Montana School for the Deaf and Blind
MSF	Montana State Fund
MSL	Montana State Library
MSP	Montana State Prison
MSU	Montana State University, followed by campus designation i.e. MSU – Bozeman
MUS	Montana University System
NP	New Proposal
OBPP	Office of Budget and Program Planning
OCHE	Office of the Commissioner of Higher Education
OPI	Office of Public Instruction
PERS	Public Employees Retirement System
PL	Present Law
PSC	Public Service Commission
RIGWA	Resource Indemnity and Groundwater Assessment Tax
RIT	Resource Indemnity Trust
SABHRS	Statewide Accounting, Budgeting, and Human Resources System
SAFETEA-LU	Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users
SAO	State Auditor's Office
SF&C	Senate Finance and Claims Committee
SOS	Secretary of State
SSR	State Special Revenue
TANF	Temporary Assistance for Needy Families
TRS	Teachers' Retirement System
TSEP	Treasure State Endowment Program
UM	University of Montana, followed by campus designation i.e. UM – Missoula

INDEX FOR ALL VOLUMES (1-7)